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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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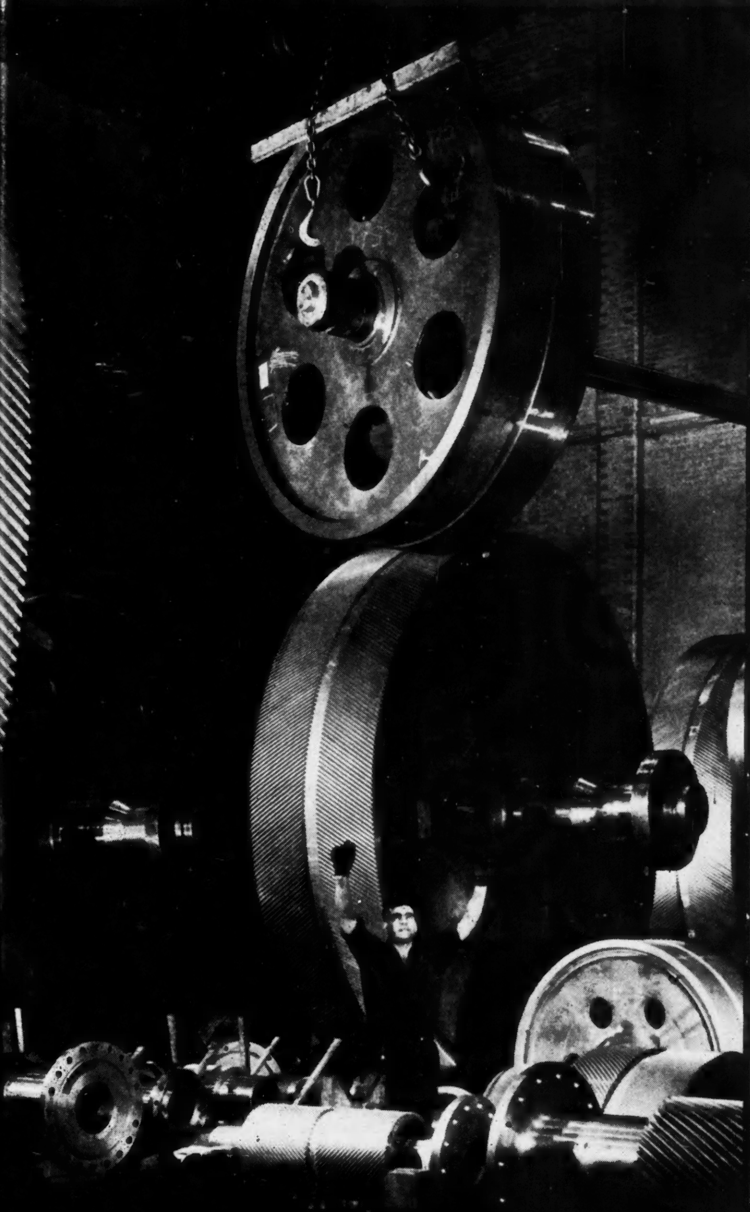

What 80% Corporate Tax Ceiling Means To Dividends

By Stanley Devlin

How Coming Manpower Shortage Will Affect You

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Which Oils and Rubbers Are Headed for Recovery

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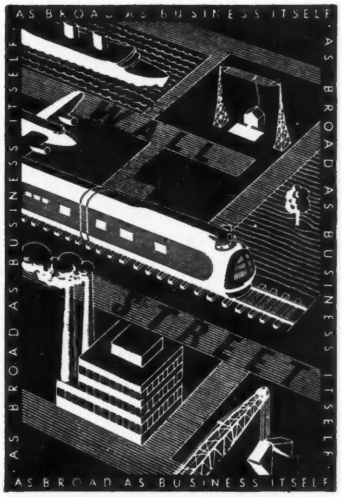
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* LAURENCE STERN, *Managing Editor*



The Trend of Events

THE REAL ISSUE . . . It is important that farm prices be stabilized in the interest of an adequately balanced war economy. But the issue raised by recent disheartening happenings in Congress goes far deeper than this. It concerns nothing less than the very survival of representative government itself.

In many other countries we have seen the deterioration of legislative bodies establish a condition which made dictatorship inevitable. When a national legislature can no longer make responsible decisions in the national interest—whether due to peanut politics, corruption, clash of selfish group interests or sheer stupidity—you can put it down that it is on the way out and a dictator is on the way in. Don't say it can't happen here.

A large majority of the American people demand effective stabilization of farm prices and wage costs—including even a big majority of the farmers. There can be no doubt about this. Repeated Gallup polls—one was completed just a couple of weeks ago—prove it.

Yet what happened as Congress neared action on the farm price legislation? According to responsible newspaper reports, some 250 lobbyists from the farm organizations swarmed through the Capitol's corridors and conference rooms, "turning on the heat." A majority of the House members obediently took their orders. The Senate was on the verge of a similarly disgraceful stampede—until given pause by the impassioned, honest-to-God speech of Senator Brown, of Michigan.

In recent years we have seen government of, by and for the people verge more and more toward government of, by and for the best organized special pressure groups. Unless courageously reversed, the end of this trend is dictatorship. *If Congress cannot rise to responsible statesmanship even in the terrible crisis of war, more and more people will conclude that it never can.* In that case, to whom would they turn? For the present it could only be Roosevelt—but for the future there would be no lack of strong and ambitious men avid for power.

It is not yet too late. It is possible that even before this editorial is published an outraged public opinion will have brought Congress to its senses—and thereby saved it. But it has gone far out on the limb. It has forfeited a goodly measure of public trust. And if it is so stupid as to continue fighting Mr. Roosevelt on the price of the people's food, it will find that the people will overwhelmingly back the President.

THE BASIC SHORTAGE . . . In a war effort of this huge magnitude it was inevitable from the start that we would be progressively faced with shortage after shortage. First the key bottleneck centered in machine tools and war plant construction. This summer we ran

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smack into the formidable raw materials bottleneck—still with us, though in process of partial correction through better control methods and expanding sources of materials production. Now clearly visible, but still ahead of us so far as concerns is most drastic effects, is that ultimate bottleneck of war: shortage of people for the armed services, war plants and essential civilian occupations.

Even though not in important conflict with the war effort as regards consumption of needed materials, it is highly probable that in time certain civilian industries will be forced to curtail in order to free labor for the war plants. Plans of this kind for the paper industry are already under official study. Others will follow. Even the most essential civilian industries will be under steadily increasing pressure to make the most effective possible use of the supplies of both labor and materials.

Total mobilization of manpower is the biggest of political headaches in a democracy and of all changes in a war economy it involves the most drastic readjustments for millions of civilians. At Washington there will be months of verbal exploration of this problem before it reaches the stage of legislative action. Somewhere along this road the Administration and the gentlemen of Congress are going to have to answer a very tough question that they would prefer not to discuss, or even think about, right now. It is this: If the Government forces a man to take a job in a plant now unionized, does it not thereby in effect force him to join the union? If he does not have to join the union, the union will be seriously weakened and intra-plant strife would be certain. If he does have to join, really by Federal edict, the Government certainly would be forced by public opinion to regulate the unions so completely that they would be virtually stripped of their present powers for the duration. In any full partnership of the Government and the unions, the Government will be the boss. Gentlemen, you better start mulling it over!

STEEL SCRAP . . . The present steel scrap collection campaign is off to a good start and appears to hold much greater promise than previous efforts. With the press of the whole nation, as well as the radio stations, cooperating in a big way, the urgent necessity of getting in every possible pound of the metal is being effectively brought home to civilians generally. In many communities, truck collection remains the weakest link but this too is being remedied by better top organization.

Collection of light scrap from and by householders, farmers, etc., is only part of the story. For the first time in effective measure we are making a drive—ably organized and amply financed by Government money—for heavy scrap such as is to be had from destruction of old buildings, bridges, trolley rails, etc. The capable Robert Moses is running the heavy scrap program in New York City. If the job is given to similarly able men in other communities, there need be no doubt of the scrap rolling in.

Yet there is one queer thing about the scrap situation. Between O P A ceiling prices on scrap and rising labor costs, a great many scrap dealers and collectors have been forced out of business. In other words, having made it difficult or impossible for the professionals to operate, the Government now turns to the amateurs. Theoretically the scrap price ceilings may be a valid part of the anti-inflation policy, though they would seem to have a very scant relation to the people's cost of living. And at the same time that inflation of scrap prices is being prevented—though not as yet of foods and wage costs—the Government is prepared to spend any part of an authorized half billion dollars to finance the heavy scrap drive! A more intelligent price ceiling policy would also help.

Scrap for the steel mills will in any event be a continuing problem in a long war. With production of consumers' durable goods halted, this normal source of supply will dwindle. The bulk of the new steel is going into war goods and equipment—much of it shipped abroad—that certainly will not be scrapped for many years to come. The steel industry in time will have to use more pig iron and less scrap. Before we are through with this job, motor vehicles without bumpers or fenders probably will be a familiar sight and no home will have a metal fence around it. If that were the biggest of our war worries or sacrifices we could be very happy. It is a trifle in today's scheme of things.

INVENTORY CONTROL . . . It is very heartening that in the complicated matter of putting our supply of raw materials to the most effective uses, Donald Nelson has not only "got tough" but has reorganized WPB control methods so that some of the ablest executive brains in the country are focused on the task, with all needed authority to see it through. But no one should be so foolish as to expect miracles.

To an unknown extent, shortages of steel and other key materials are artificial—caused by inefficient distribution, excessive inventories in some plants, inadequate inventories in others. But that is not the whole story. When this has been corrected—as it will be—we will still be faced by shortages; real, physical shortages.

It is beside the point to say, as some critics have: "Look what Hitler has done, with far less steel than we have." The answer is: (1) Hitler started an all-out arms race in 1934, while we didn't start until the summer of 1940 and did not approach all-out effort until after Pearl Harbor, which was last December. (2) Our scheduled arms program, to reach peak by the end of next year, dwarfs any total of war produetion Hitler ever dreamed of.

Certainly we shall have to have ruthlessly efficient allocation of materials. But also we shall have to continue forced-draft expansion of the sources of materials output; and we shall have to make further drastic cuts in the non-war uses of all shortage materials. True, as shown by Department of Commerce statistics, we now have a more efficient *average* ratio of shipments to inventories in the durable goods industries than we had in the peace year 1939. But that is not enough. It will have to be still further improved. In war, everything must be done better and faster than in peace.

As I See It!

BY CHARLES BENEDICT

INTRIGUE BEHIND THE SCENES

Axis spokesmen working underground during the dark days after Hawaii have been coming into the limelight since the siege of Stalingrad began several weeks ago. It is very significant that this should be so. And it forces one to the conclusion that everything is not going well in the Axis camp—that Hitler is seeking to bolster a possible military defeat with a political and propaganda victory. The Nazi failure in Russia, the success of the United States' strategy in the Pacific, have evidently severely disrupted Axis plans—increasing their risks so greatly that neither of the two fellow travelers can come to each other's assistance according to schedule.

Three outstanding instances of Axis fence-mending are to be found. First, in Laval's attempt to deliver Frenchmen into slavery in Germany at the risk of revolution in France—indicating a desperate need for manpower in the Reich. Then, the reappearance of Sir Samuel Hoare, former English collaborator with Laval and well-known Nazi sympathizer, who in his recent speech seems to be preparing the way for a status quo for Germany in the event of her defeat. Sir Samuel Hoare happens to be one of the repudiated British appeasers who has remained Ambassador to Spain despite frequent protests of the British people that he be retired because of his well-known Fascist leanings and involvement in anti-Communist intrigue.

Despite British protests to the contrary the retention of Sir Samuel Hoare and others like him in important places has been the reason for Stalin's continuous suspicion of British intentions. It seems that Winston Churchill not only did not succeed in allaying that suspicion in Stalin's mind but apparenly he heightened it. Sir Samuel Hoare's speech, therefore, coming after the conference between Stalin and Churchill, produced such bitterness and tension between Russia and the Allies that a serious rift seemed imminent.

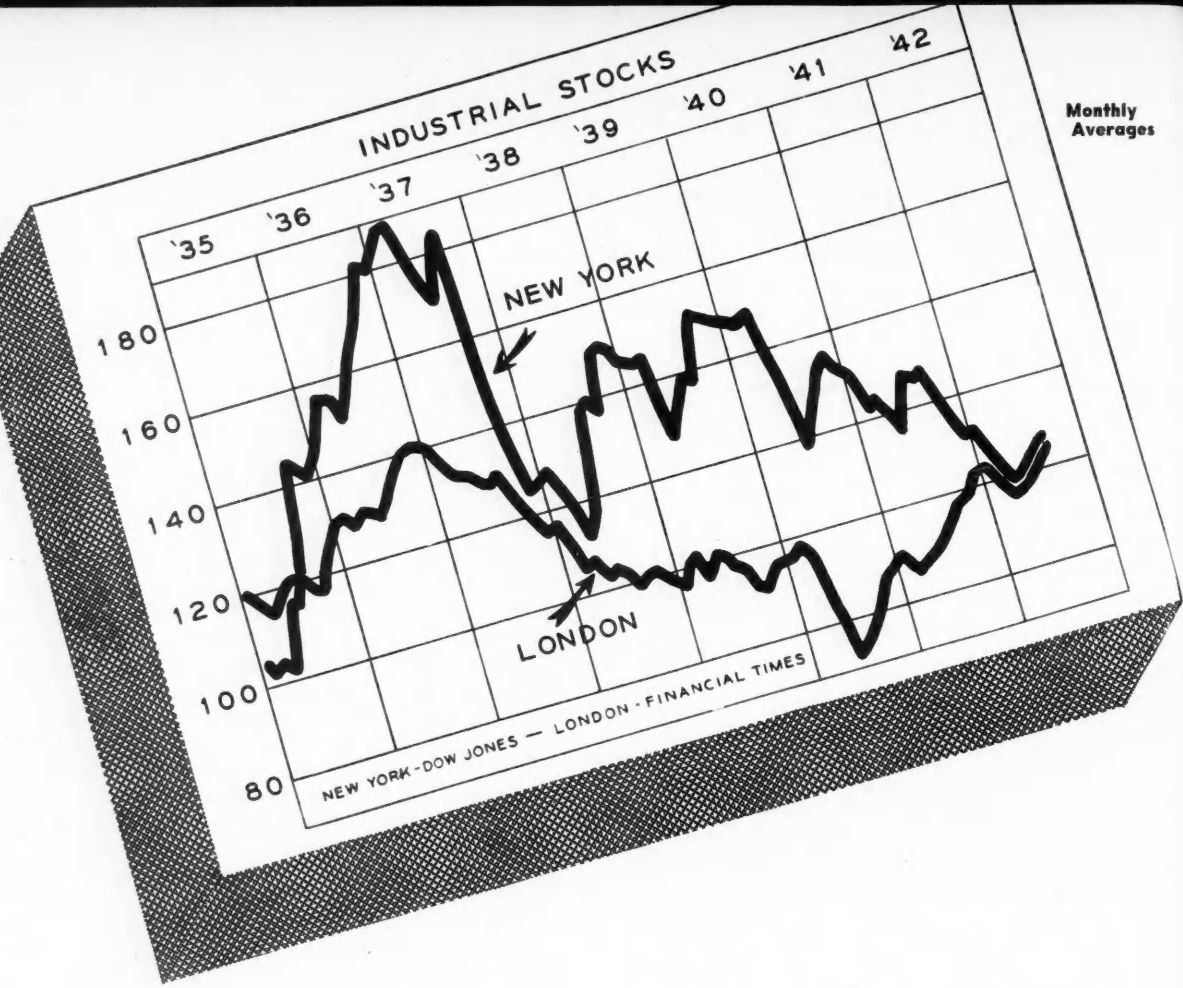
And as if this situation itself was not enough, a third factor had come into the picture—the Vatican—which seems to be reflecting Axis pressure for a peace move, in which General Franco, Sir Samuel Hoare and Marshal Petain are all involved. Since this combination holds the leadership in anti-Communistic activities, it is little to be wondered at that Stalin is restive and highly irritated in view of the heroic and superhuman defense of the Russian people against the Nazi's terrific and devastating blows.

Because of these circumstances it can readily be understood why the failure to open a second front in Europe causes Stalin to conjecture as to whether the plan of the appeasers, which was to sit on the sidelines and let Communism and Fascism slug it out (with the Allies plucking the spoils out of their dead hands), was not the main reason for withholding assistance and that military unpreparedness was merely the excuse.

Nothing could be more unfortunate at this time than to have the Russian people believe such a thing, and for them to become convinced that Stalin was justified in refusing to take both the English and the American general staffs into his confidence *(Please turn to page 671)*

Wide World

Recent developments indicate that Hitler—with the help of Propaganda Minister Goebbels—is seeking to bolster a possible military defeat with a political and propaganda victory.



What's Ahead for U. S. Securities?

Does Britain's Market Forecast Recovery Here?

Although the stock market's performance for some time has been far from bearish, probably most investors and speculators are still wondering whether the average lows of last April can be accepted as a lasting bottom.

That their confidence is not exactly robust is readily understandable. Quite aside from basic considerations —including war and tax uncertainties—the market's action itself has the most influential effect on confidence or the lack of it. After deep and protracted decline, the surest thing about an initial market rise is that it will open debate as to whether the grateful change is just a rally or a lasting betterment. The closer the average remains to that previous low—both in points and time— the greater the doubt as to underlying trend.

True, after weeks of sidewise drift, the Dow-Jones industrial average at last "went through" that mid-July recovery high last week, but only by a modest margin. On last July 16, about two and one-half months distant from the late April low, it had had a maximum recovery of 17.2 per cent. At the recent high, with the spring low five months behind us, the total recovery had been stretched only to 17.7 per cent.

In contrast to this, the London market has been in a definite uptrend for about 27 months; and to date the rise from the low made in June, 1940, has been just above 76 per cent. Also British industrials (London Financial Times index) are about 10 per cent higher than they were at the end of August, 1939, just before the outbreak of war, whereas the Dow average today is some 18 per cent lower than at the end of August, 1939.

There is no question about the underlying trend of the London market. It is up. Nobody is thinking back to the bottom except as a reference point for figuring the percentage gain.

Some important turning points in the London market have preceded turns here. The past tendency of the London market to "lead" the New York market in point of time—though far from an infallible guide—has been

As is the case in the London market, our trend appears bullish in a selective and "slow motion" kind of way. We think market will work higher and favor discriminating purchases on recurrent dips.

BY A. T. MILLER

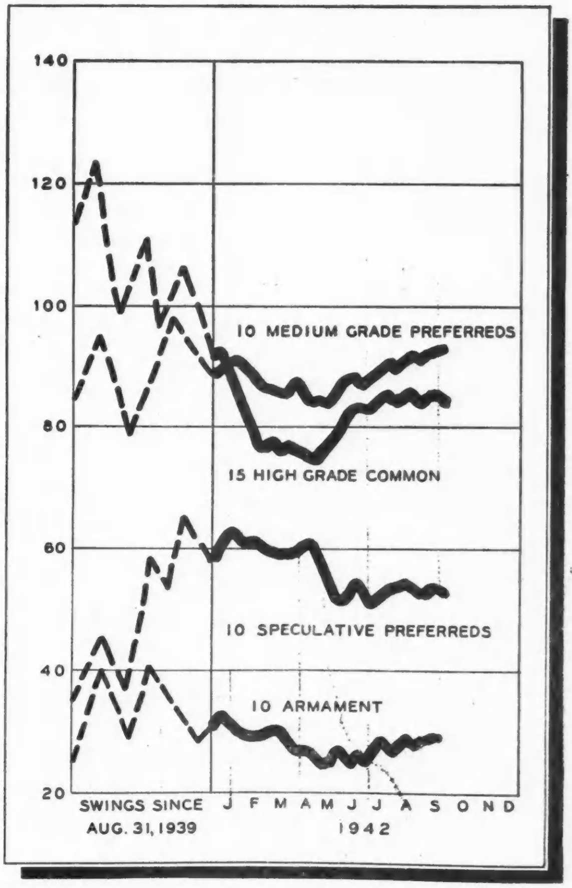
such as to merit respectful American attention to the direction of British prices. But there have been various exceptions, so let's take a rather long look back at the record.

Starting after the end of World War I, we'll list the tops first: London market, December, 1920; New York, November, 1919. Score one for New York in precedence. London market, June, 1923; New York market, March, 1923. Score two for New York. London, May, 1928, with practically a double top in February, 1929; New York, October, 1929. Score a big one for London. Next the big recovery of the mid-thirties. London topped late in 1936, New York in March, 1937. Score two for London. That looks like 50-50—but it isn't. The two instances of New York's leadership on the major downturns are rather ancient history. London "called" the two big bear markets since the late '20's—and they footed up to a much bigger mileage of market movement than the two downturns led by New York.

And now a look at some important bottoms. In the initial post war depression London hit the low in October, 1921; New York in August of the same year. Score one for New York. In the 1923 downswing, New York bottomed in October; London some months earlier. In the post-1929 crash June, 1932 was the low month for London, July for New York. At this point comparison might as well halt. As will be noted from the chart at the top of the first page of this article, London just plugged along consistently, with relatively slight interruptions, in one long bear market from the end of 1936 to June of 1940. There were no such jig-saw gyrations as New York went through in 1938 and 1939. London's major low in 1940 coincided almost exactly with what proved to be merely an intermediate low here. From the autumn of 1940 to the end of 1941, we went consistently down, London pretty consistently up. London reacted early this year while we were feeling for bottom, then got going again shortly before our turn up in late April. If—as we think likely—April was a major bottom for us, London preceded it by 22 months.

There is one thing about the London market that inspires confidence. It has more of a one-track mind than the New York market. It seldom goes to such extremes of optimism or despair as we do; and is less given to interruptions in the main trend. Having made up its mind on trend, it just plugs along. As the two nations are now so closely allied in war, probably it is a good omen that divergent market movements seem to have ended and that the two markets have been in gear since last spring.

But while London has risen 76 per cent since June of 1940—while our market shows a net decline for the period and a rise of only some 17 per cent from the April

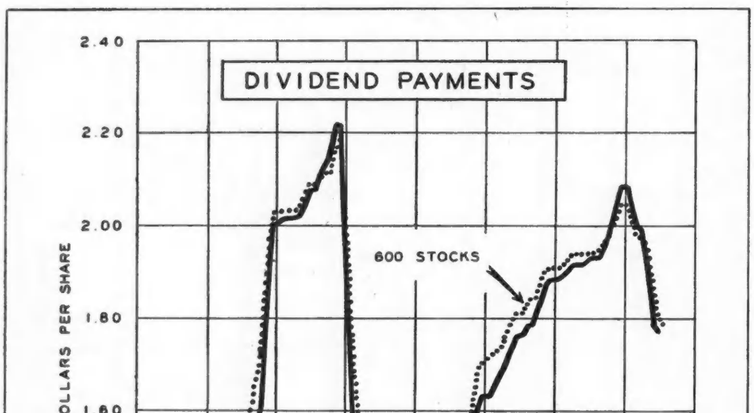


low—the performance has been much less sensational than such a percentage figure would seem to imply, as you will note by a glance at our long term chart of comparative average monthly prices. At the 1940 lows, our industrials were only moderately under the average of 1935, while London was nearly 50 per cent under its average of 1935. London then, in fact, was within striking distance of its 1932 low, while the Dow average at the June, 1940 low was 173 per cent above the 1932 low and at its low last April was some 120 per cent higher than its 1932 low.

There are, of course, various differences between the environments of the two markets. Although the *symptoms* of inflation—prices and the cost of living—are under more effective control in England than here, the basic monetary-credit inflation is much further advanced there than here. That is, British Government debt in ratio to national income is over three times what it is in the United States.

The Inflation Factor

British market observers disagree as to what extent "inflation fears" have been a factor in the London market's recovery. It is generally agreed, however, that inflation is much more likely to bear fruit after the war than during it and therefore that it could influence only long pull buying. There is no evidence that the London market entertains hopes of an early end of the war, although it was months in advance of the New York market in developing confidence as to the basic war prospect and in largely immunizing itself to the temporary United Nations' war reverses. A recent issue of the London *Economist* observed that the largest gains were in home railway shares, brewery shares and shares of building materials concerns; and that these rises "appear to be based entirely on short term considerations."



SOURCE: MOODY'S INVESTORS

Psychologically—and probably strategically—June, 1940 was the low point of the war for Britain. The Germans had swept to the Channel. Many, including Hitler, thought that the end for England was near. To British investors and speculators that was the worst—and it was survived. The combination of psychological relief and an extremely low base of share prices is of itself enough to explain the subsequent recovery—a combination similar to that behind our more concentrated rebound following the banking holiday early in 1933. Also U. S. entry into the war was highly bullish, from London's viewpoint.

Other Bullish Factors

But there were other bullish factors also. Prominent among them was the influx of heavy cash funds in hands of investors resulting from the British Government's action in taking over holdings of American and Canadian securities, as well as some private holdings of South African Government bonds and Indian Government bonds. Cash was paid for these securities, and much of it was re-invested in home securities.

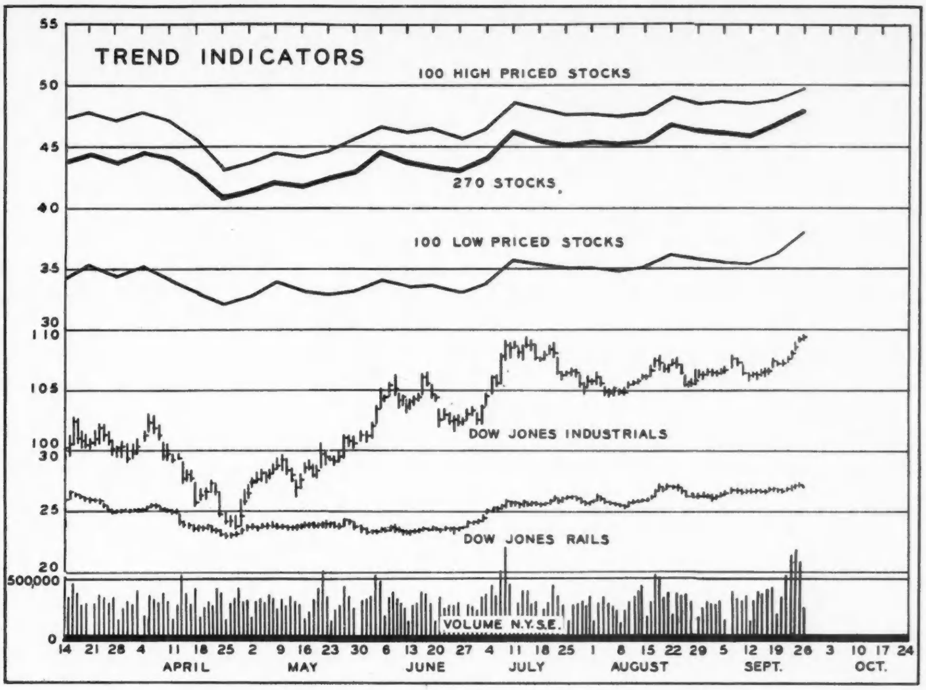
Again, the drying up of new offerings of Dominion and Colonial issues—which formerly absorbed a goodly annual proportion of investors' funds—left home issues as the only outlet for such funds. Also rationing is so severe in England that—despite very heavy income taxes—an abnormal margin of savings has been left for investment. More of this, of course, has gone, and is going, into Government bonds than into corporate securities, but important amounts nevertheless have gone into the latter.

The basic difference in this regard, however, is not the volume of savings but the disposition of it. Savings here also are hugely increased, but there is no evidence that any significant amount is going into corporate securities. It may be contended that British investors have greater confidence in the economic policies and leanings of their Government—and in the long range outlook for private enterprise—than do American investors; but that is not the whole story. On the whole, British stocks have a more conservative and seasoned investment background than do American stocks; and equities have been a more widely accepted medium of investment by the middle classes, as well as by the wealthy, than has been the case here. This is still true, though for years prior to the war there was a gradual increase in investment regard for our equities—as witness substantially increased percentages of institutional endowment funds so invested over the past decade. Eventually the great war-time accumulation of individual savings will almost certainly benefit our corporate security market, but mainly in the post-war period.

Another difference is that England long since completed the transition to a full war economy, including corporate

and individual taxes tacitly accepted as representing maximum for the duration of the war. The London market had no chance to discount this transition gradually. It fell so low after the collapse of France that this, as well as the apparent worst contingency of the war itself, was discounted at that time.

In the United States the discounting by the market of our formal entrance into the war and of the future implications of an all-out war economy was a long-drawn-out process extending from early November of 1940 to April of this year. It is improbable that the tax legislation now pending can be regarded as maximum for the duration of the war—except as regards excess profits tax rates and the 80 per cent over-all tax ceiling. Personal rates will certainly rise still higher; and whether the agreed combined normal and surtax for corporations on this year's earnings is 40 per cent or 45 per cent, it is doubtful that it will be left unchanged next year. Nevertheless, in our opinion—which some observers do not share—the American public's psychological adjustment to the war and all implications of a war economy—including war taxes—was completed last April.



Behind the "Averages"

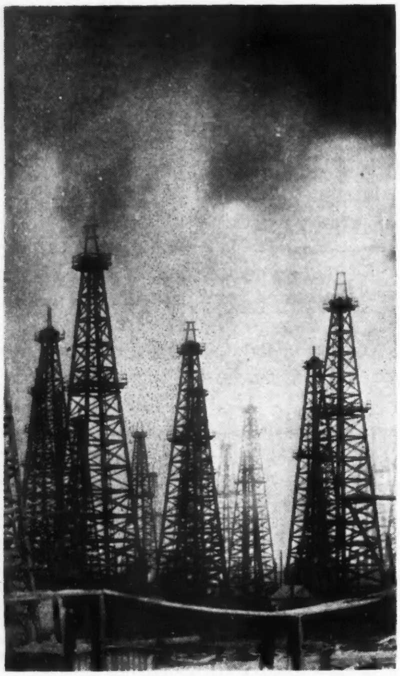
It should be noted that both in London and New York the most widely used stock market indexes or averages give a somewhat distorted picture of the realities. In England many formerly popular "Colonial" equities have been severely depressed by British military disasters in the Far East and by the German threat to Africa and the mid-East. Also South African gold shares have suffered, chiefly reflecting inability of the mining companies to get enough explosives and replacement equipment. Since home shares are more greatly represented in the London market indexes, including that of the *Financial Times,* these indexes give a more bullish picture of the total market than is warranted. On this side, the widely followed Dow industrial average—made up of a small handful of selected equities—is chronically higher than the real market. For instance, at this writing, this publication's weekly index of 270 issues—the rank and file of the market—is only some 6 per cent above the *lowest* level of the deep depression year 1934, while the Dow industrial average at 109 is over 28 per cent higher than the lowest 1934 level. Thus equities on the average are more greatly depressed—and therefore cheaper—than the Dow "average" suggests.

As would be expected in a relatively mature war economy, dividends on British home equities are more stabilized than is the case here. While there are some exceptions, of course, the general trend of dividend payments here is quite sharply downward. As will be noted on an accompanying chart, average weighted monthly dividends payment on 492 industrial stocks, as compiled by Moody's, has declined by some 15 per cent since the end of 1941 but is still well above the average of 1940. How much further it may decline is impossible to forecast on a statistical basis. Our guess would be, at worst, that it will not fall under the average of 1939; while our weekly index of 270 equities would have to advance 25 per cent to equal the average level of 1939.

Moody's average yield on 600 stocks at the end of August was 6.3 per cent., as compared with 7.8 per cent at the end of April. The decline is partly due to rising prices since April, partly to (*Please turn to page* 671)

Actuaries' Investment Index

	Price Indexes (Dec. 31, 1928 = 100)			Yields Per Cent	
Fixed Interest	Aug. 29, 1939	Feb. 27, 1940	July 28, 1942	Feb. 27, 1940	July 28, 1942
2½ % Consols	113.9	132	146.9	3.38	3.04
Home Corporations (4)	114.4	128.2	141.6	3.63	3.30
Total Industrial Debentures (43)	104.5	110.1	117.6	4.30	4.04
Total Industrial Preferreds (101)	87.7	97	104.2	4.62	4.54
Ordinary Shares					
Coal (8)	75.7	98.3	77.3	5.82	6.80
Cotton (5)	19.3	32	32.5	2.67	4.09
Total Production (90)	60.7	65	63.8	5.86	5.23
Home Rails (4)	38.4	57.2	48.9	3.67	7.49
Total Distributive (29)	43.2	45.6	50.6	5.51	4.67
Total Miscellaneous (40)	67.8	66.7	70.4	5.51	4.87
Industrial All Classes (159)	57.9	60.6	62.1	5.71	5.04



Effect on U.S. Economy —as World Supplies of Basic Materials Change Hands

BY V. L. HOROTH

It is seldom realized that the shift in the control of basic raw materials and foodstuffs from the United Nations to the Axis Powers is rendering the United States economy more self-sufficient than the most confirmed economic isolationist dared to dream in the years before the war. Perhaps at no time since we have become a great industrial nation have we had to rely to such an extent on our own resources and on those of other Western Hemisphere countries as at present. And it is our good luck that the untapped resources of this hemisphere are large enough to assure us a victory, provided, of course, that we show enough vision, organizing ability and energy to utilize them.

During the First World War we became more self-sufficient chiefly because of the diversification of our industrial production, much as Canada is making herself more self-sufficient during the present war. We built engineering plants to supply the Allies with fighting weapons and emerged as a premier producer of capital goods. The cutting off of German imports resulted in an expansion of the chemical industry in general and of the synthetic dyestuff industry in particular.

In bringing about a greater national self-sufficiency in industrial raw materials, however, the World War I accomplishments were less conspicuous. There was no necessity for it. The bulk of world raw materials resources remained accessible to the Allies, and certain domestic resources were tapped only to raise the wartime output. Thus we opened low grade deposits of manganese, chrome, ore, tungsten and other ferro-alloys chiefly because of increased demand. Most of these ventures did not survive the war. On the other hand, the opening of phosphate deposits in the Southwest was successful and subsequently made us independent of the French and German product. Self-sufficiency in nitrogen was achieved principally through the development of the then relatively new air-nitrogen industry.

In contrast with World War I, during the present conflict "we have arrived" industrially, and with the exception perhaps of some specialized optical and surgical instruments, there is little that our plants are not equipped to manufacture. The problem is, rather, to replace and to increase the supply of raw materials and vegetable fats normally obtained from Southeastern Asia. A conception of the problem involved may be obtained by setting off the cost of the products now inaccessible to us against the total value of our imports. The table below shows that we spent for the principal products on an average about $430,000,000 a year during the 1937-1939 period, equivalent to about one-fifth of our total imports. Present cost would be close to $1,000,000,0000 because of wartime expansion and higher prices.

Average cost of imports during:	1937-39	1940
Crude rubber	$185,000,000	$317,000,000
Silk	105,000,000	125,000,000
Tin	73,000,000	128,000,000
Copra, coconut and palm oil	35,000,000	23,000,000
Tung and perilla oil	17,000,000	21,000,000
Pyrethrum and cinchona	4,000,000	5,000,000
Manila fiber	6,000,000	5,000,000
Antimony and tungsten	3,000,000	9,000,000
Total	$428,000,000	$633,000,000

Up to last spring when the Japanese conquest barred us from access to the natural wealth of Southeastern Asia and came pretty close to crippling our war effort,

Deliberate and scientific destruction of raw material sources has partly—but not entirely—offset Axis conquests.

Cushing Photo

we continued to think in terms of statistical tables compiled in the early months of the present war—and the writer has several of them on his conscience—showing the bulk of resources on the United Nations' side. The figures, however, represented mostly the physical assets. Measured by resources actually used for war, the position of the United Nations countries was less favorable, and the conquests of the Axis Powers impaired it further to an extent that few people realize. The accompanying table, reproduced from the early September issue of "Newsweek" (with a few items added), throws light on the weakened raw material position of the United Nations, though the table, of course, lists again total physical assets rather than the resources actually used for war. It will be seen that at present some 90 per cent of the world crude rubber and copra output is out of the reach of the United Nations, as well as about 74 per cent of the world tin output and 67 per cent of the tungsten production. The share of the world manganese output which the Axis now controls has increased about six times since 1939, that of wheat about four times, and of copper more than twice. The position of the United Nations has improved in the case of aluminum (also magnesium) as a consequence of the tremendous expansion of its production in this country and Canada. Other improvements have been due principally to the inclusion of Russian production.

Some consolation may be found in the fact that in many cases the United Nations' loss has by no means been the Axis Powers' gain, and that the table makes them consequently stronger than they really are. Apparently rubber output was resumed but on a much smaller scale, simple because Japan's own needs are not much more than 10 per cent of the production of the conquered countries. Tin output undoubtedly suffered from the destruction of dredges, highly specialized equipment which can be obtained only from Great Britain and the Netherlands. The large sugar production of Java and the Philippine Islands, we know, has been disorganized by Japan's efforts to divert the acreage into the cultivation of cotton.

The problem of replacement of raw material resources lost to the enemy is being attacked in any one or all of the following three principal ways (one) through the opening of new resources either in this country or in the countries still accessible to the United Nations, (two) through the use of synthetics or substitutes, and (three) through the curtailment of consumption. In most of the cases, however, the requirements have sharply increased, adding to the gravity of the problem.

The most far-reaching in its consequences will be, of course, the creation of a new billion dollar synthetic rubber industry within a space of about two years' time. Now that some of the confusion created by the contest of various groups for a share in this industry has more or less cleared up, it appears that some 530,000 tons of synthetic rubber will be made in 1943, with production reaching the annual rate of over 1,000,000 tons by the close of that year. The problem is apparently not only that of the construction of new plants, but also of the organization of the flow of the principal ingredients, butadiene and styrene, from all over the country. The cost of Buna S rubber, the type that will account for the bulk of the synthetic rubber output, will be between 20 and 25 cents per pound, or about that of crude rubber prior to Pearl Harbor. Chemists expect that by the time

The Shift of Raw Material and Foodstuff Resources in 1939-1942

	Axis (incl. Japan) % of World Output		United Nations % of World Output	
	3 Years Ago	Now	3 Years Ago	Now
Axis' Position Improved:				
Rubber	0	90	50	10
Tin	3	74	63	26
Copra	3	90	96	10
Tungsten	..	67	32	33
Manganese	8	48	40	52
Coal	29	53	53	47
Wheat	10	40	40	60
Phosphates	..	29	70	71
Sugar	14	36	45	64
Cotton	..	13	70	87
Chrome Ore	..	30	51	59
Rice	20	53	76	45
Wood pulp	13	37	48	52
United Nations' Position Improved:				
Petroleum	1	10	64	90
Copper	5	12	54	88
Zinc	17	28	48	71
Nickel	..	2	97	98
Lead	19	24	58	76
Wool	5	9	72	79
Steel	21	33	44	67
Aluminum	42	36	44	64

Expanded Production of Raw Materials of the United Nations Countries or the Countries Still Trading with Them

	1939	1940	1941	Est. 1942	Est. 1943
Synthetic Rubber (000 tons)					
United States	5	5	10	30	530
Tin (000 met. tons)					
Belgian Congo	10	13	16	20	....
Bolivia	28	39	43	54	....
Nigeria	11	10	15	20	....
Aluminum (000 short tons)					
United States	164	206	309	530	1,100
Zinc (000 short tons)					
United States	507	675	823	950	....
Argentina	27	36	54	65	....
Magnesium (000 short tons)					
United States	5	6	15	60	375

	1939	1940	1941	Est. 1942	Est. 1943
Copper (000 m. tons)					
United States	661	797	870	950	....
Chile	339	353	457	520	....
Steel (000 m. tons)					
British Dominions (a)	3,950	4,750	5,500	8,000	....
Brazil	114	141	200	500	....
Lead (000 m. tons)					
United States	380	395	430	500	....
Peru	46	50	55	60	....
Coal (000 tons)					
Peru	108	107	195	250	....
Chile	1,850	1,937	2,050	2,300	....

(a) Union of South Africa, Canada, Australia.

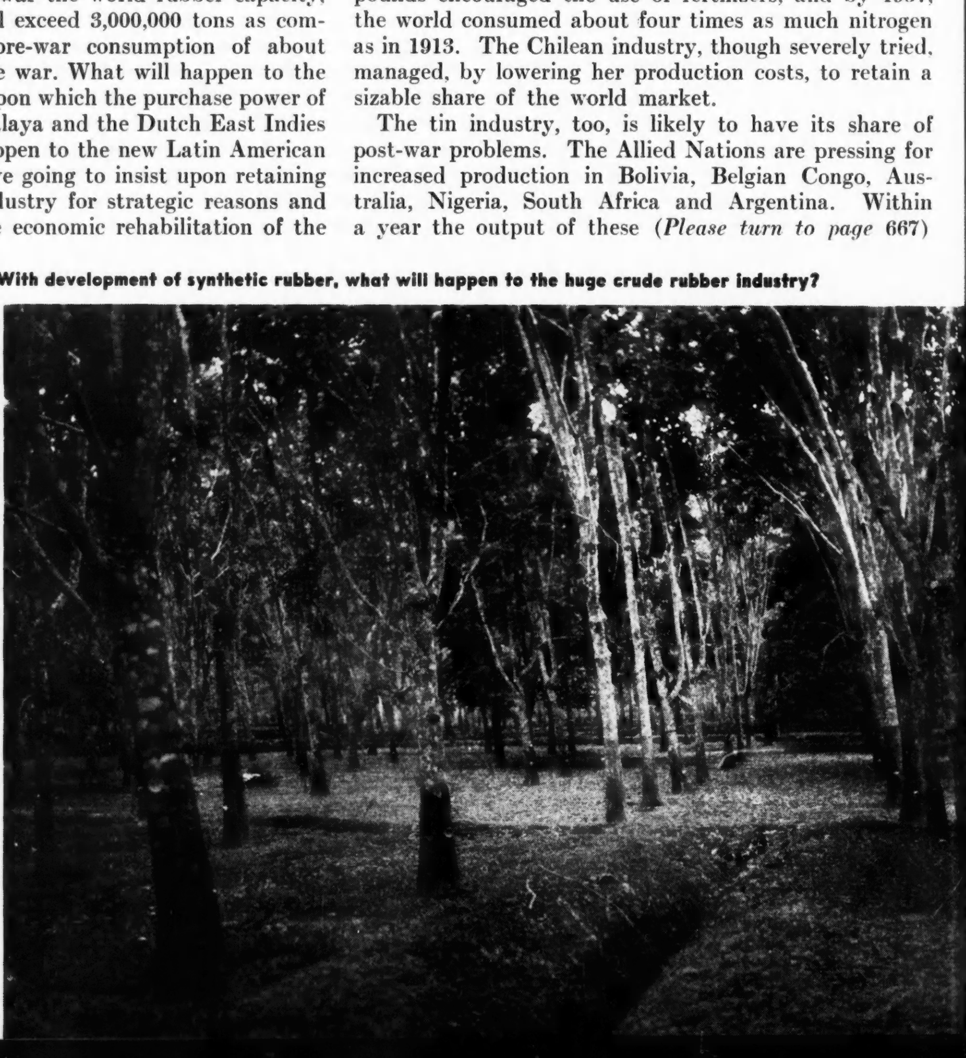
mass production is reached, the cost may be lowered further.

We are not the only country that has been forced to develop rubber substitutes or synthetic rubber. Germany and Soviet Russia already have a well established synthetic rubber industry, while Great Britain and such Continent countries as Spain, Sweden and Roumania are constructing rubber making plants. It may well be that by the end of the war the world rubber capacity, crude and synthetic, will exceed 3,000,000 tons as compared with the peak pre-war consumption of about 1,400,000 tons before the war. What will happen to the crude rubber industry, upon which the purchase power of millions of natives in Malaya and the Dutch East Indies depends? What will happen to the new Latin American rubber industry? Are we going to insist upon retaining the synthetic rubber industry for strategic reasons and stand in the way of the economic rehabilitation of the countries whose good will we are courting?

All these questions are difficult to answer now. Most likely the solution will come, especially if the cost is lowered, through the expansion of the uses of rubber. Cheap rubber would greatly aid in the motorization of Asia and Latin America. In such a case, the expansion of consumption may be staggering. The history of the nitrogen industry may very well be repeated. Before World War I, the Chilean nitrade industry had a practical monopoly, supplying over half of the world production, while the the new air-nitrogen industry contributed about 8 per cent. To meet the huge war-time demand of munition industries, new synthetic nitrogen plants were constructed everywhere. When the war was over, the world nitrogen capacity had more than doubled. Chile lost her monopoly, and the share of the air-nitrogen industry in the world market advanced to about 41 per cent by 1922. However, the cheap post-war prices of nitrogen compounds encouraged the use of fertilizers, and by 1937, the world consumed about four times as much nitrogen as in 1913. The Chilean industry, though severely tried, managed, by lowering her production costs, to retain a sizable share of the world market.

The tin industry, too, is likely to have its share of post-war problems. The Allied Nations are pressing for increased production in Bolivia, Belgian Congo, Australia, Nigeria, South Africa and Argentina. Within a year the output of these (*Please turn to page 667*)

With development of synthetic rubber, what will happen to the huge crude rubber industry?



As the Tax Legislation Nears Completion
It Looks Substantially Less Unfavorable
to Corporations

What 80% Corporate Tax Ceiling Means to Profits and Dividends

BY STANLEY DEVLIN

DESPITE the possibility of further change in some details of the 1942 tax legislation before the bill completes its journey through Congress and to the President's desk, the scope of remaining uncertainty as regards the impact upon corporations is relatively small.

As amended by the Senate Finance Committee, the bill is substantially less unfavorable in its implications for corporate earnings and dividends than was the House version or the original measure proposed by the Treasury. This is partly a matter of difference in specific corporate rates. Perhaps even more important in longer-range implication, however, is the difference in attitude.

Among the members of the Senate Finance Committee are some of the ablest and most influential men in the upper chamber. The past record of tax legislation—and this is not coincidence—suggests a strong probability that the committee's bill will be adopted by the Senate without major amendment, and that in the final Senate-House conference agreement the Senate version will substantially prevail. It is therefore encouraging that, in considering the Government's great revenue needs, this committee—much more so than the House or the Treasury "experts"—gave careful and sympathetic attention to the question of preserving the goose rather than of squeezing out the last possible golden egg.

For the first time in the tortuous course of this legislation, thought turned to a maximum limit on corporate taxes—to a feasible ceiling high enough to produce all revenue practicable but low enough so that the tax burden would not weaken the productive efficiency of corporate enterprise or threaten it with ultimate financial anemia. True, the 80 per cent tax ceiling will mean a tax savings—as compared with the earlier rates proposed—for only a minority of corporations whose volume and pre-tax earnings have been hugely lifted by the war activity. But it is nevertheless a sizable and important minority in which the interests of many thousands of stockholders are concerned.

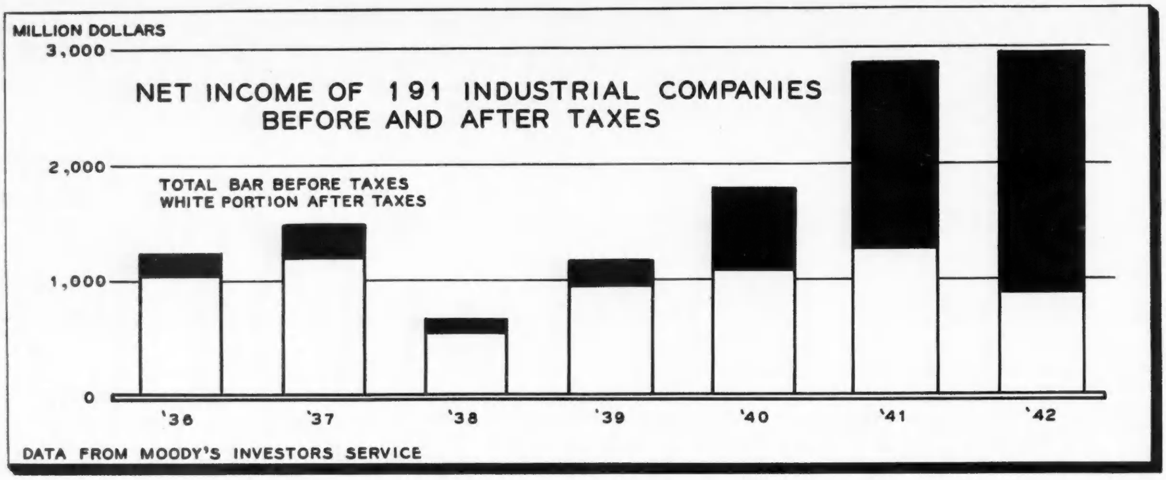
Because so many of the corporate earnings reports for the first half-year did not reveal sufficient data on tax accruals, it is not possible at this time to present a complete list of all the companies to whom the 80 per cent ceiling is of some importance. However, even the limited data now available indicate that over two score of listed companies are in this class. There is apparent reason to assume that certain others must be similarly and favorably affected—as will be shown by specific tax accrual figures in subsequent earnings statements. Meanwhile, in an accompanying tabulation, we list the reported half-year earnings of a number of companies and the indicated increases that would have resulted had an 80 per cent tax ceiling been in effect.

As another hopeful indication of the increasing inclination of Congress to have regard for the health of that goose that lays the golden eggs, take note of the last-minute amendment through which the Senate Finance Committee provided a credit against surtax for payments of public utility preferred dividends. This change may or may not be retained in the final bill.

Political Sympathy for the Utilities at Last!

Many utility stocks would be substantially helped if the final tax bill contains the Senate Finance Committee provision for a tax credit against dividends paid on operating company preferred stocks and if the 40 per cent combined normal and surtax prevails over the House specified 45 per cent rate. In most cases, 40 per cent rate would yield larger tax savings than dividend tax credit.

Dividend credit would save Commonwealth & Southern system about $1,875,000 a year; and difference between 45 per cent and 40 per cent normal and surtax rate would save another $1,700,000. Total benefit would amount to about $2.40 a share on Commonwealth & Southern preferred stock. Combined savings for Consolidated Edison would be around 35 cents per share on its common; for American Gas & Electric 37 cents a common share; for Public Service of New Jersey about 45 cents a common share.



Nobody can be sure. Yet it is encouraging because it is the first evidence of political recognition that: (1) the utilities, because of regulated rates and relatively small war-time expansion of gross intake, are entitled to special tax consideration; that (2) utility stockholders are human beings with some claim to just treatment; and that (3) there is something wrong with a tax system which tends to induce corporate debt capitalization, since payment of bond interest is a credit against taxes but payment of dividends—even preferred dividends—is not.

If this preferred stock dividend cushion for utilities—and it probably would apply only to operating companies—becomes tax law, a very significant precedent will have been established, increasing the likelihood that ultimately the same basic principle would be more broadly applied. If a tax credit for preferred dividend payments is fair for utilities, why not for manufacturing companies or, for that matter, all corporations? Why should fixed bond interest be considered by the Government as a legitimate part of the operating costs but not so with payment of fixed dividends on a preferred stock? Both bond interest and preferred dividends paid by corporations may be considered to be rentals or fees paid for the use of capital raised from investors.

Double Taxation Inequitable

If you think our private enterprise system is worth fighting for, you would do well to tell your representatives in Congress what you think of the prevailing double standard of morality—and its evil *practical* consequences—in tax policy as it has existed up to now. As pointed out before by this publication—and it needs to be harped on and hammered home—corporate earnings that are distributed in dividends, whether common or preferred or both—are taxed twice by the Government: first as part of the corporation's earnings; second as income received by the stockholders. Also needing to be harped on—and repeatedly brought to the notice of the gentlemen of Congress—is that the British have not resorted to double taxation of the same corporate earnings, even though they are just as pressed to raise maximum revenues as is our Government.

If for the longer future we want a basically free and productive corporate enterprise system, then certainly the conditions for raising needed investment capital in the money markets should be more equalized as between debt financing and stock financing. The tax credit for utility preferred dividend payments, even if it becomes law, would be only one small step in that direction. Today, with the tax burden so high, manufacturing companies are under considerable practical inducement to retire outstanding issues of preferred stocks and replace this capital with bond issues. Theoretically, the saving in taxes—since it would increase net income—would benefit the equity stockholders. Actually—as we see in the case of the railroads—a company with large funded debt, especially of mortgage issues, is always inclined, other things being equal, to be more conservative in equity dividend policy than it would be if preferred issues, rather than bonds, preceded the equity. In various ways, debt and fixed interest just cramp one's style.

Prudent Limit to Corporate Taxation

Most utilities would be more greatly helped by the Senate Committee's last-minute reduction of the normal and surtax rate to 40 per cent, from previously pending 45 per cent, than by the tax credit for payments of preferred dividends. Other non-war-active enterprises in all kinds of business would also, of course, be aided—aided in the sense of not being soaked as hard as the House had voted to soak them. But of all the changes made to date by the Senate in the House bill, this one seems most dubious of final acceptance. The Treasury remains adamant in clamoring for a 55 per cent combined normal and surtax rate and certainly will fight hard against a rate as low as 40 per cent. One may be pardoned a suspicion that the Senate Committee's cut represents a bargaining strategy, with the thought that this may make it somewhat easier to effect a final Senate-House "compromise" on 45 per cent.

It is worth noting that even the Treasury recognizes that there is a prudent limit to corporate taxation—if operating efficiency and solvency are to be maintained—and that for war active companies 80 per cent of pre-tax earnings is about all that the traffic can be expected

to bear. The difference, however, between Treasury desires and the leanings of the Senate Finance Committee is that the Treasury would like to be able to regard half of the 20 per cent balance of net income for these companies as a tax credit for rebate after the war. In relation to available corporate cash and ability to pay dividends, the effect would be about the same as if the tax ceiling were 90 per cent instead of 80 per cent. The money would be spent by the Treasury—just as Social Security tax payments are spent. It would be up to some future Congress to appropriate the funds out of which the rebates could be paid. Maybe it would vote them, but the Treasury can not guarantee that.

90% Excess Profit Tax Probable

From all of the evidence at Washington, it seems reasonably assured to the writer that 90 per cent will be retained in the final bill as the excess profits tax rate and that the 80 per cent over-all ceiling will "stay put." Every other corporate tax provision is considerably more uncertain. This refers not only to the partial tax cushion for utilities and the final level of the combined normal and surtax rates, but also to the Senate Committee's 10 per cent post-war refund or debt-retirement credit provision. This would carry excess profits tax "relief" further than the Treasury seems to have any notion of wanting to go. Also, while the House may be expected to accept the 80 per cent over-all ceiling on tax liability, it is very doubtful that it will accept this additional cushion. Therefore, in the accompanying tabulation of the potential effects of the 80 per cent tax ceiling on earning power of representative war-active corporations, this possible factor has been ignored.

Note that I speak of the "potential" effects. The qualification is regrettable but, in the interest of accuracy, it has to be made. Application of the 80 per cent ceiling formula to first half-year earnings reports will throw some useful light on future earning power potentialties—but qualifying considerations, which may work in opposite directions, must be taken into account. The biggest blind-spot in calculating future earnings today in the matter of contract renegotiation. The Government at any time can say to any war contractor—and it is doing just that right along—"You are making too much money (before taxes) on this contract. We herewith lower the contract price by so and so."

When is a contract not a binding contract? Answer: when it is a war contract. This is a difficult problem to handle equitably, without leaving business men and stockholders under a very considerable cloud of uncertainty as to earnings trends and as to maximum permissible earnings. In some individual cases, renegotiation of contracts has made a difference in pre-tax earnings running into many millions of dollars. The effect, of course, is to reduce earnings. Under present law a contract may be re-opened more than once. And there is a post-mortem clause: the contract price may be challenged as late as three years after the end of the war.

Profits Affected by War Contract Renegotiations

This means that net income is determined partly by tax law, partly by the discretion of the Army, Navy and Maritime Commission on the matter of contract price. All remedies proposed to date are faulty from the Government's point of view. One is that contract prices would permit a specified maximum percentage net return—perhaps 5 or 6 per cent—on sales, after allowing for income and excess profits taxes. In cases of exceptional volume even 5 per cent, despite an 80 per cent tax ceiling, would permit earnings representing both a big increase over the pre-war average and a very "sweet" return on the capital investment. In other cases it would not be enough to encourage efficient production. No such flat (*Please turn to page* 666)

Companies Benefited by 80 Per Cent Ceiling

Company	Net 1st 6 Mos. Per Share As Reported	First Half 1942 Earnings Under 80% Limit	Per Cent Increase
National Acme	1.90	3.45	81
Pitts. Screw & Bolt	0.26	0.35	34
National Malleable & Steel Castings	1.21	1.30	7
New York Air Brake	1.97	2.23	13
Bendix Aviation	5.22 (9 mos)	7.31	40
Hercules Powder	1.47	1.74	18
Yellow Truck & Coach	0.71	1.44	102
Blaw-Knox Co.	0.44	0.84	90
Briggs & Stratton	1.78	2.48	39
Clark Equipment Co.	3.87	5.69	68
Mack Trucks, Inc.	2.13	2.46	15
Bullard Company	0.76	2.81	269
Sperry Corp.	1.19	1.30	9
Crucible Steel Co.	4.01	6.08	51
Timken-Detroit Axle (Fiscal Year June 30)	5.25 (12 mos.)	8.00	52
Weston Elec. Inst.	2.23	3.76	68
Allis Chalmers	1.17	1.48	26
Cooper-Bessemer	0.75	2.08	177
Fairbanks-Morse	2.11	2.84	34
Square D. Co.	1.71	2.47	45
Westinghouse Electric & Manufacturing	2.10	3.02	43
American Locomotive (Preferred)	7.25	8.24	13
American Woolen (Preferred)	4.74	6.15	29
Anaconda Wire & Cable	2.05	3.30	60
Aero Supply "B"	0.74	1.13	52
Thompson Products	2.56	3.13	22
Greyhound Corp.	0.28	0.52	85
Cutler-Hammer	0.84	1.17	39
Doehler Die Casting	1.46	2.03	39
White Motor Co.	0.94	2.17	130
Underwood Elliott Fisher	0.87	1.35	55
Timken Roller Bearing	1.15	1.68	46
Rustless Iron & Steel	0.64	0.98	53
Revere Copper & Brass	0.51	1.21	137
National Cash Register	0.45	0.53	17
Mullins Manufacturing (Preferred)	10.75	16.08	49
Marlin-Rockwell Corp.	1.13	1.85	63
Johns-Manville Corp.	1.24	1.67	34
General Steel Castings (Preferred)	10.46	14.57	50
General Cable Corp. (Preferred)	2.81	4.82	72
United Aircraft Corp.	2.37	2.51	6
Federal Motor Truck	0.39	0.46	18
Link-Belt Company	1.32	1.44	9
National Cylinder Gas	0.28	0.33	17

Temporary and Permanent Effects of National Gasoline Rationing and Development of Synthetic Rubber

Changed Prospect For Oils and Rubbers

BY H. F. TRAVIS

INCLUDED among the recommendations of the Baruch rubber committee, submitted early in September, were expansion of the Government's synthetic rubber program to 1,106,000 tons annually from the present 877,000-ton plan. The expanded synthetic program would embrace 845,000 tons of "buna S," 132,000 tons of "butyl," 69,000 tons of "neoprene" and 60,000 tons of "thiokol."

These recommendations, considered in connection with the various restrictions upon the use of motor vehicles and the sale of gasoline, constitute a clear recognition of the imperative need for swift and comprehensive action to rebuild our diminishing stores of rubber, which, in turn, is a sequel to the occupation of the great rubber-producing areas in the Far East by the Japanese. Reduced to its elements, about two-thirds of the ingredients required for synthetic rubber production would be obtained from petroleum and about one-third from alcohol.

Inasmuch as the automotive industry is a sort of "common denominator" for the petroleum and rubber industries, developments in one of these divisions have profound repercussions upon the other, with prosperity or the reverse following a rough parallel in both of these branches of the nation's economy.

As a sequel to establishment of gasoline rationing and 35-mile speed limits for automobiles throughout the nation, public gasoline consumption will be reduced by an estimated 40% below normal levels. To the extent that this cut is not counterbalanced by direct military requirements for use of oil or gasoline in tanks, fighting planes and warships, or through diversion for utilization in the production of synthetic rubber, revenues of the big petroleum organizations are certain to be affected.

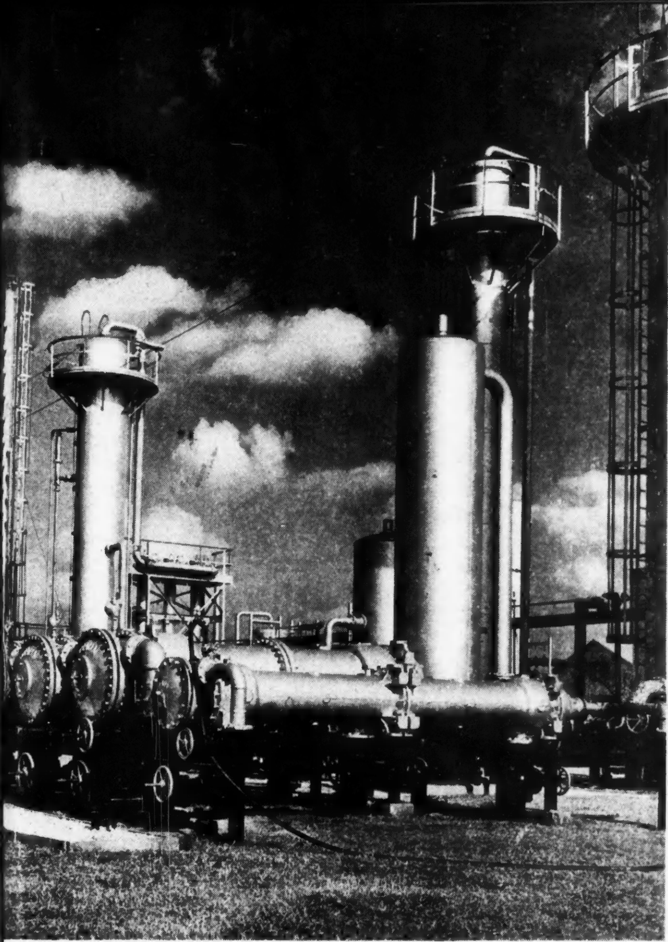
Gasoline rationing on the East Coast has had a serious effect upon the operations of Atlantic Refining Co., and a deficit of $0.70 per share was in sharp contrast with profits of $1.79 on the common, in the six months ended June 30, 1942, and 1941, respectively. Demand for aviation gasoline is a favorable factor, but profits for 1942 will be well under the $5.16 per share reported last year. On the reduced dividend basis of $0.15 quarterly, the common has little near-term appeal.

Barnsdall Oil Co., with operations chiefly in the middle and far western sections of the country, reported profits of $0.54 per share for the first half of 1942, compared with $0.58 in the same 1941 months. With maintenance of the present level of crude oil prices indicated, profit margins are expected to remain satisfactory. Finances are strong. Dividends have been paid since 1935, and on the present basis of $0.60 annually, an attractive yield is currently available, but the company will be adversely affected by national gas rationing.

War Needs Sustain Operations

Consolidated Oil Corp., which distributes its products in all sections of the United States except on the Pacific Coast, exhibited profits of $0.65 per share on its common for the half-year ended June 30, last, as against only $0.26 in the first half of 1941. Operation of an extensive pipe-line system aids in controlling transportation costs. Drop in normal demand resulting from gasoline restrictions is expected to be offset to some extent by larger production of aviation gasoline and synthetic rubber and explosives components. Dividends have been paid since 1934. Financial position is sound.

Continental Oil Co., whose marketing is conducted in



Gasoline rationing has had serious effects on some of the oil companies—but production of aviation gasoline, synthetic rubber and explosives components help to offset losses.

the Rocky Mountain, Mid-Continent, North Central and Middle Atlantic regions, also showed gains in profits during the first half of this year, net income being equal to $1.26 per share, compared with $0.82 per share of capital stock for the six months ended June 30, 1941. Although gasoline restrictions will affect net for the final half of the year, production of aviation gasoline and of toluene (used for explosives) for the Government should prove a compensating factor. Company enjoys a strong financial condition, but yield on the $1.00 annual dividend is unattractive. However, the well-integrated position of the company affords it some appeal from a long-term standpoint.

Gulf Oil Corp., also a highly integrated petroleum organization, does not report on an interim basis. East Coast operations have doubtless been seriously affected by rationing of gasoline along the Atlantic seaboard. Nevertheless, the overall decline in sales may not be large because of expanding demand for aviation gasoline and fuel oils, despite Federal restrictions on sales of gas throughout the country. Yield at current prices is low, but long-term prospects are encouraging.

Sales of Humble Oil & Refining Co., which is controlled by Standard Oil Co. of New Jersey, should be aided by larger lend-lease volume as well as demand for toluene, aviation gasoline and other items for military purposes. Dividends have been paid on the capital stock since 1918. Yield on indicated annual basis is unattractive.

From a transportation standpoint, Mid-Continent Petroleum Corp., is favored by possession of pipe line and tank car systems. Earnings for the six month ended June 30, 1942, equalled $1.60 per share of common stock, compared with only $0.95 per share in the similar 1941 months. It is questionable whether the company has succeeded in maintaining this favorable ratio in subsequent months. Demand for lubricants has impelled expansion of facilities for such production. Although long-term outlook is hopeful, this issue holds little attractiveness from an income point of view.

Rationing on the East Coast, one of the chief sources of revenue for Pan American Petroleum & Transport Co., has had serious effect upon operations, and net income dropped from $0.63 in the first half of 1941 to $0.08 per share for the comparable 1942 months. The less favorable situation may be responsible in some measure for failure to declare dividends on the capital stock thus far in 1942. Near-term outlook is unimpressive.

Phillips Petroleum Co., whose activities are concentrated in the Middle West, reported profits of $1.51 per share, compared with $1.85, in the 1942 and 1941 half-year periods. Company has undertaken a $30,000,000 expansion program, which includes construction of two alkylation units, a butadiene unit, gathering lines and products lines. Long-term prospects are good, and the stock at current prices provides a return of about 5% on the $2 annual dividend.

Seaboard Oil Co., with interests in the Middle Far West, earned $0.40 per share on its capital stock the first half of 1942, compared with $0.47 in the corresponding 1941 period. Operations will be further affected by the extension of gasoline rationing.

Sales of Shell Union Oil Corp., are conducted over a well-diversified geographical area. Profits for the half-year equalled $0.55 per share of common, compared with $0.57 in the similar 1941 months. Extension of facilities for the production of butadiene, toluene and aviation gasoline should contribute toward maintenance of over-all sales volume in future months. Although stock has little appeal from an income standpoint, long-term prospects are optimistic.

Socony's Long Dividend Record

Socony-Vacuum Oil Co., is certain to be further affected by gasoline rationing throughout the United States, although an important countervailing influence is provided by enhanced output of aviation gasoline and toluene, and of synthetic rubber ingredients. Earnings for the first half of 1942 equalled $0.43 per share, compared with $0.42 in the similar 1941 months. Dividends have been paid since 1912, by the organization.

Standard Oil Co. of New Jersey, one of the world's great petroleum organizations, conducts American sales principally in the Atlantic Seaboard and Gulf Coast areas. Gasoline rationing on the East Coast, a sequel to tanker shortage, has retarded operations, as may be observed from the drop in earn- (*Please turn to page* 670)

How Coming Manpower Shortage Will Affect You

War and War Work to Require 30 Million People by End of 1943 and More Thereafter

BY H. M. TREMAINE

THE United States is now moving inch by inch toward conscription of labor under the principle of universal selective service. While factory workers would be chiefly affected, the principle would be applicable to all civilians. If you hold an essential job of any kind, the Government could "freeze" you in it. If you hold a non-essential job, the Government could order you to shift to one of its own choice.

This, of course, is the ultimate and most drastic step in any nation's mobilization of human resources for war. It has long been an established fact in Russia and England, Germany and Japan.

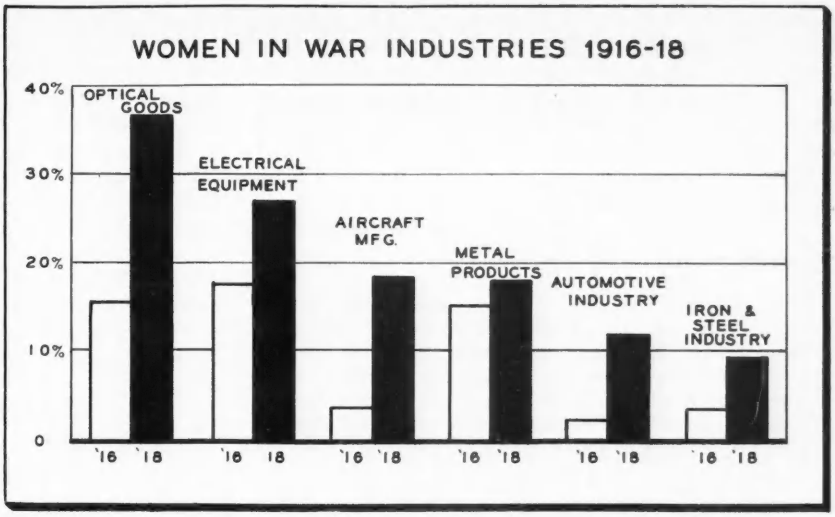
A beginning has already been made. Recently Paul V. McNutt, chairman of the War Man-Power Commission, issued a "directive" against job transfers in the lumber and non-ferrous metal mining industries in twelve western states. Action here was immediately necessary because high rate of labor transfers was seriously hampering vital war production.

But this first venture in job freezing is an oblique approach, without direct authority of law. Mr. McNutt can't directly enforce it. In partial and indirect enforcement, Selective Service has ordered local draft boards in those twelve states to reclassify immediately any worker who defies the McNutt directive. This,

The human scene pictured here will shift. Future labor "shots" will show many women, young boys, older men.

however, would not influence workers below or above Army draft age. So now comes a further "remedy" from the War Labor Board. A special panel has recommended a substantial wage increase for the metal miners in the area affected—for the specific purpose of checking labor migration. The suggested wage increase goes far beyond the "Little Steel" formula.

Mr. McNutt bluntly states that non-compulsory efforts to check "needless" labor migration, and "pirating" of labor have failed, and that legislation establishing Federal control of the labor market is necessary and can not be much longer deferred.



No doubt partly as a build-up for such legislation, the President recently by executive order gave the Man-Power Commission full control over the jobs of some 2,300,000 persons on the Federal payroll. It can freeze any of these people in their present jobs, shift them to different Government jobs or order them to take jobs in private industry—without their consent or that of the department or agency for which they are now working. They retain—for the present—the right to resign, but under forfeiture of benefits which few will choose to relinquish.

It is not easy for the layman to get his teeth into this subject of compulsory allocation of labor. It is a subject concerning which most official and unofficial discussion to date has been carried on in terms of sweeping generalizations rather than down-to-earth statistics. And even where statistical estimates of our war man-power needs have been officially ventured, one may be pardoned for taking them with a certain skepticism or doubt—due to the fact that so many other equally official estimates of one kind or another have already gone awry.

Early in our mobilization there was the familiar and widely publicized cliche that modern war requires at least 15 workers in the war plants for each man in the armed forces. Later this was "revised" to 10 war plant workers. Either figure is a pipedream. The latest and far more realistic projection is that by the end of next year there will be some 10,000,000 men in the Army and Navy and that there will have to be 20,000,000 war production workers. That's a ratio of two workers to one fighting man. It is to be doubted that the ratio will be greatly—if any—higher than it was at the peak of our effort in the First World War. True, production needs per fighting man are far greater than in 1918, but so also is present output per factory worker per hour.

We are told that the schedule calls for war production in the order of $70 billions in 1943, and the President has said that present over-all volume must be doubled. Perhaps it can be done. No doubt it will be done as regards certain type of individual weapons. But—serious as is the present shortage of skilled labor—by far the most formidable obstacle confronting increased war output is the shortage of materials.

Unfortunately, nobody in or out of Washington knows today the exact proportions of the materials shortage, present or prospective. That is, we don't know to what extent it is a physical shortage that is restricting output of existing war plants or to what extent it is an artificial shortage due to faulty Federal control of inventories and inefficient distribution materials.

Until this matter is cleared up, the fact is that the maximum number of war workers that will be needed can only be a guess rather than an estimate. A continuing shortage of materials and a continuing shortage of labor just don't fit together. If you can't get the additional materials needed, you can't use millions of additional war workers.

The Biggest Bottleneck

While all war materials are important, availability of steel alone can be taken as the most comprehensive controlling factor. Only if shortage of steel is artificial in important degree and only if inefficient distribution is corrected would it be possible to double in the next year the present total physical volume of war production. To the extent that steel shortage is a physical fact, it would be a miracle if the combination of expanded steel-making capacity and further curtailment of civilian consumption could add as much as 20 per cent to supply for war purposes over the next year. A 10 per cent boost in total steel capacity would be a conservative expectation. Production of the great bulk of non-essential steel products has already terminated.

Suppose we assume, however, that the present projections of manpower needs accepted in Washington are substantially correct. In that case, maximum number of people in the armed services would be reached by the end of next year at some 10,000,000; and maximum war workers would number about 20,000,000. These figures compare, respectively, with estimates of 5,200,000 and 17,500,000 as of the end of this year, and with 2,000,000 and 7,300,000 as of the end of last year.

In other words, out of total of 20,000,000 war work jobs, 17,500,000 or more than 87 per cent will have been voluntarily filled by the end of this year. That would leave 2,500,000 more war workers to be placed in jobs

before the end of 1943. Obviously, the great bulk of these—of whom considerably more than half undoubtedly will be women not now in the labor force—can be had by inducement rather than compulsion, although the publicized existence of the Government power of compulsion would undoubtedly stimulate the shift of a great many people to war work while they still have freedom of job choice.

In amount of work done American labor is still fighting a "soft" war as compared to either our allies or our enemies. In England, war workers put in an average of anywhere from 55 to 70 hours a week. The highest average here is 54 hours in the machine tool industry. Some other example, taken from latest available Department of Labor statistics, are:

Blast furnaces, steel works and rolling mills, 40.9 hours per week; electrical machinery, 46; engines and turbines, 48.2; foundries, 48.3; aircraft, 47.5; motor industry, 43.7; locomotives, 48.3; shipbuilding, 48.8; aluminum manufacture, 44.9; brass and copper products, 44.7 non-ferrous metal smelting, 40.6; lumber millwork, 42.4; boots and shoes, 38; chemicals, 41.4; explosives, 46.2 rubber products, 42.3; bituminous coal mining, 32.8.

British labor, as this article observes, is really in the war. American labor is only partly in the war.

It is one thing, and fairly simple, to freeze people in essential jobs. It is something else—a nightmare of bureaucracy, a transportation problem and a housing problem—to shift any considerable number of people from one job to another in different localities. For instance, there is a shortage of workers in Detroit but a considerable surplus in New York City. In the final analysis, it would be simpler to shift some of the Detroit war work to New York City contractors than to shift New York workers to Detroit. The administrative problem would be far simpler; and there would be neither transport nor housing problems involved.

Freezing Essential Jobs

If we are to have maximum efficiency in war production, the freezing of workers in war plant jobs seems essential and unavoidable. The present high rate of labor turnover in the war industries is a factor of grave weakness in our position, and the proportions of this problem have not been brought adequately to public attention. According to latest statistics of the Department of Labor, the voluntary "quit" rate in the manufacturing industries has been rising perpendicularly throughout this year. By June, the "quit rate," not counting men leaving jobs to enter the armed services, had risen to 38 per 1,000 workers per month. At such a rate, one year would result in a factory labor turnover of 456 workers per 1,000 or nearly half. Since June, the rate undoubtedly has increased. It costs money and takes time to train new workers or to fit even skilled workers into a new operating environment—thus lowering the over-all efficiency of the war effort in very important proportion.

Job-freezing in war industries would automatically stop the pirating of labor and otherwise lessen the present force of wage-inflation. It would take adjustment of wage inequalities out of the hands of "economic law" and leave this matter entirely to the War Labor Board.

A moot point is what to do about the scarcity of farm labor and its continuing migration to better paid urban jobs. Farm labor works as much as 70 to 80 hours a week at straight pay, against a 40-hour week with time and a half for overtime for industrial workers. Even under war emergency it can not be accepted as equitable to freeze one man into a low-paid 70-hour a week job and another into a high-paid 40-hour a week job.

The Squeeze on the Farms

Farming is a truly essential industry. As its labor scarcity becomes more acute, the Government will have to consider "allocating" workers to it. That brings up another ticklish question. Let us say that Mrs. Smith and Mrs. Jones are able-bodied, childless young women, capable of doing manual labor. God pity the Federal bureaucrat faced with a decision to place one in a low-paid job on a farm, the other in a high-paid factory job!

Also, in any extensive application of the principle of universal selective service, another first class dilemma would face the Government. What are we going to do about the unions? If a man voluntarily takes a job in a closed-shop war plant, he has to join the union. The principle of the closed shop—especially without legally established safeguards for the workers—is objectionable to many people. But the closed shop, or modified forms of it, is an accepted fact in many industries. However, the union applies the compulsion—not the Government. And a man at least has a choice of not taking a job in a closed-shop plant. But it is wholly another matter if (1) the Government forces a man to take a job in a given plant and (2) the union then forces him to join.

That would, in effect, make the Government and the unions a full partnership, with monopoly job control. It is not on the cards that the American people will accept any such condition. Moreover, unless union leaders are much more stupid than the writer considers them to be, they would contemplate such a prospect with the deepest—and well justified—misgiving. If jobs, as well as rates of pay, were controlled by the Government, what place would there be (*Please turn to page* 665)

Projected Utilization of our Human Resources

(In Millions of People)

	Dec. 1941	Dec. 1942	Dec. 1943
Armed Services	2.0	5.2	10.0
War Workers	7.3	17.5	20.0
Farm Workers	8.9	8.5	7.5
Other Workers	29.4	20.8	19.0
Self-Employed	5.9	5.5	5.0
Unemployed	3.9	2.9	2.0
Total	57.4	60.1	63.5

Ten Companies With Long Dividend Records

Are They Secure Today?

BY J. C. CLIFFORD

American Telephone & Telegraph Co., and predecessor concerns possess a record of continuous dividend payments that extend back to 1881. Subsidiaries of this company have in service about 80% of the total telephones in the United States. "Bell System" telephones numbered 18,949,500 on January 31, 1942, out of nationwide total of 23,450,000.

Because of the unusually wide distribution of the shares of this great communications organization, developments affecting its operations are closely followed throughout the nation. Enjoying, as it does, a practical monopoly in its field of activity, the company has built up its resources over the years, thus enabling it to maintain a rather liberal dividend rate even during years when such payments were not fully earned. The present $9 annual dividend rate has been in effect since 1922. Doubt has frequently been expressed as to its continuance, but to date the record remains unimpaired.

With respect to the future, it is evident that maintenance or reduction in the existing rate of distributions will be determined principally by the nature of the tax bill finally adopted by Congress. Inasmuch as the larger proportion of telephone company earnings is subject only to normal income and surtaxes, enactment of higher rates in these brackets, rather than in the excess profits brackets, would have a rather serious effect upon earnings available for dividends. In such an eventuality, dividends of A. T. & T. might conceivably be cut to a basis of approximately $7 or even $6 annually, but there can be little doubt that distributions will be continued without interruption. On this prospect the stock should not extend the low of 101¼ made earlier this year. On the other hand the writer considers it somewhat over-priced at recent level above 118.

Coca-Cola Co., and its predecessor company have maintained annual dividend payments in varying amounts since 1893. This company is considered the leading soft drink manufacturer, with all but a minor portion of revenues derived from sale of "Coca-Cola." One subsidiary owns and operates the Atlanta baseball franchise in the Southern League, while another is engaged in production of certain war materials.

The protracted litigation with Pepsi-Cola Co., over trade-marks has been terminated, by mutual agreement, according to announcement in May, 1942. However, the company has filed an action in the Delaware courts against the Nehi Corp., charging infringement of trade marks in the use of the "cola" name.

Sales have declined somewhat in recent months, and this factor, rather than higher taxes, was chiefly responsible for the drop in net income to $2.76 per share of common from $3.77 per share in the half-years ended June 30, 1942, and 1941, respectively.

The financial position at the 1941 year-end was satisfactory, although inventories were rather substantial. It is understood that the latter included large stocks of sugar, which would be a distinct advantage at the present time. Dividends on the common are being paid at the annual rate of $3 per share, as against $5 per share paid in 1939, 1940 and 1941. Indications are that the current rate will be maintained. The stock has had a large recovery. Dealing in a non-essential product, the company cannot prudently be considered to be "out of the woods" of war-economy restrictions.

Commonwealth Edison Co., whose operations are concentrated in the Chicago area, and its predecessors have a record of uninterrupted annual dividend payments going back to 1890. Nearly 90% of operating revenues is obtained from sale of electricity.

Although operating revenues for the twelve months ended June 30, 1942, were 16% higher, substantially increased tax deductions cut net income to $1.56 per share for that period from $2.38 in the corresponding months a year earlier.

While additional tax increases might result in further contraction in earnings, it is pertinent to observe that at the end of 1941, the company held cash and Government securities in the amount of nearly $65,000,000, as aganst current liabilities of only $41,300,000. Moreover, the nearest bond maturity of importance is in 1958, but the greater portion of this original issue has been converted into capital stock.

The great industrial activity in the Chicago area resulting in considerable degree from the manufacture of war materials should result in continued substantial demand for power, assuring a high level of revenues in coming months. Dividends are currently being paid at $1.40 per share annually. This rate looks fairly secure until and unless corporate surtaxes are raised again next year.

Continental Insurance Co. (New York) has not failed to make at least one annual payment on its shares since 1854, just one year after incorporation. This company writes a wide variety of insurance, including fire, automobile, marine, sprinkler leakage, and several other types. In 1941, about 55% of net premiums written was derived from fire insurance, motor vehicle insurance 20%, and marine insurance about 11%. In recent years, investment income, rather than underwriting profit, has comprised the larger portion of net income.

Nationwide fire losses last year were the highest since 1932, and continuation of this trend, considered in connection with the drop in automobile coverage, would further impair revenues from underwriting sources. On the other hand, investment income continues to improve, as indicated by reports for the first half of 1942, and it is probable that for 1942 it will not be far under the $2.35 per share reported from this source last year, despite the expansion in corporation taxes.

Continental has pursued a fairly liberal dividend policy in recent years. During 1941, distributions of $2.20 per share were made, and this sum has already been equalled to date in 1942. Finances are in excellent condition, and it is likely that liberal dividends will be maintained by this company.

Diamond Match Co., and its predecessors have an unbroken dividend record dating back to 1882. The company is not only the largest American manufacturer of matches, but also turns out a number of other products, including clothes pins, golf tees, tooth picks, paper food dishes, waxed paper and toilet tissue. Moreover, it operates a number of lumber yards, and acts as selling agent in this country for certain brands of foreign matches.

This is a typical "consumers' goods" concern, and, regardless of general economic conditions, earnings over the years have been characterized by narrow fluctuations and consistently satisfactory performance. For example, in the depression year 1932, profits were equal to $1.54 per share of common, while in 1941, a year of generally high earnings, net income equalled $1.57 per share on the junior equity.

Sales of the company's principal products should be maintained with little variation, while increased lumber sales in connection with the war program are expected to offet the decline in residential demand. Federal taxes were higher during the first half of 1942, yet net income rose to $0.79 per share of common from $0.77 in the corresponding 1941 period.

An unusually strong financial position (with cash and marketable securities at the 1941 year-end being nearly five times current liabilities) has enabled distribution of the greater portion of earnings to shareholders. Dividends are being paid at the rate of $1.50 annually per share of common, and this rate is not in danger at present.

New York & Harlem Railroad Co., which is operated under lease to the New York Central Railroad Co., has paid some dividend on its common stock in every year since 1866. New York Central owns 90% of the preferred and 66% of the common shares.

New York & Harlem owns the property in New York City on which the Grand Central Station building is located, as well as several other important adjacent pieces of realty. Lines extend from New York City to Chatham, N. Y., totaling, with branches, 134 miles. The lease provides, among other things, rental equal to $5 per share on each class of stock. This sum, in turn, is distributed to shareholders, and has been paid on the $5 basis since 1900, now being disbursed semi-annually January and July 1.

While in the years through 1941, the New York Central paid the Federal income tax on these rentals, the lessee road announced recently that it would begin court action in order to determine whether it should continue to pay such taxes before rentals. The proposed action is inspired by judicial decisions in similar cases (such as that in April, 1942, in certain leased lines of Delaware, Lackawanna & Western Railroads) denying the obligation of lessee roads to assume such taxes.

In eny event, considerable time must elapse before a decision is reached. Moreover, the indispensable position occupied by New York & Harlem in the New York Central system would seem to assure, upon termination of the court action, a basis of substantial dividend payments.

Ten Companies With Long Dividend Records

Company	Average Earnings 1936-1939	Earned 1941	Latest Interim	Average Dividends 1936-1939	Paid 1941	Paid to Date 1942	Recent Price	Unbroken Div. Record (Years)
Amer. Tel. & Tel. Co.	9.54	10.26	5.02 (Jl-7)	9.00	9.00	9.00	119	62
Coca-Cola Co.	5.82	6.78	2.76 (Je-6)	4.50	5.00	2.25	76	50
Commonwealth Edison Co	2.31	2.10	1.56 (Je-12)	1.45	1.80	1.60	19	52
Continental Ins. Co. (N. Y.)	2.80	2.90	0.77 (Je-6)	1.71	2.20	2.20	38	89
Diamond Match Co.	1.64	1.57	0.79 (Je-6)	1.38	1.50	1.12½	22	61
N. Y. & Harlem RR Co.	(a)	(a)	(a)	5.00	5.00	5.00	63	77
Parke, Davis & Co.	1.85	1.63	0.57 (Je-6)	1.76	1.60	1.00	23	65
Pittsburgh Plate Glass Co.	6.09	6.82	N. F.	4.46	5.00	2.25	71	44
Ruberoid Co.	1.85	4.02	0.67 (Je-6)	1.26	1.75	0.30	18	54
Washington (D. C.) Gas Light Co.	2.01	2.24	1.84 (Jl-12)	1.28	1.50	1.50	16	77

(a) Leased to N. Y. Central; earnings not seperately reported. Je—June. Jl—July.

Parke, Davis & Co., the world's largest manufacturer of pharmaceutical and biological products, has paid annual dividends on its capital stock in some amount since 1868. Operations are conducted on a world-wide basis.

Nature of the company's business has been reflected in comparative stability of earning power over the years. For example, profits were equal to $1.19 per share of capital stock in 1932, rising to $1.89 per share in each of the years 1936 and 1939, and declining to $1.63 per share last year. For the six months ended June 30, last, profits amounted to $0.57 per share, compared with $0.68 in the same 1941 period.

In view of war-time requirements for its essential products, demand should be maintained at satisfactory levels, while sales abroad, assuming adequate supplies of raw materials, will probably be little changed. On the other hand, income from foreign activities will be affected by taxes and foreign exchange regulations.

Balance sheet as of Dec. 31, 1942, showed cash and marketable securities of $14,500,000, compared with current liabilities of $11,000,000. Dividends to date in 1942 amount to $1.00 per share, compared with $1.60 paid in each of the years 1941 and 1940. Indications are that distributions will be continued at the present reduced rate for some time to come.

Pittsburgh Plate Glass Co., with a record of continuous payments on its capital stock going back to 1899, is the world's largest manufacturer of plate glass, and is also an important distributor of paint, varnish, lacquer, brush, cement and chemical products. Coal mines, natural gas wells, sand and limestone quarries are owned.

Sales of plate glass have been adversely affected by the discontinuance of passenger automobile production. However, volume in other divisions has been sustained by heavy war-time demand. Moreover, research activities have been intensively conducted with the object of developing new products for direct military utilization.

The company does not report earnings on an interim basis, but it is probable that profits for this year will be well below the $6.82 per share reported in 1941. Finances are strong. Dividends of $2.25 per share have been paid thus far in 1942, as against $5.00 distributed in each of the years 1941 and 1940. Payments for the full year may approximate $3.00 per share, with this basis probably being continued over the near future.

Ruberoid Co., active in the building trades, has maintained dividends without interruption since 1889. Products include prepared roofing and building materials, asbestos pipe coverings, paints, paving materials, and a number of other items used for construction purposes. Offices and factories are located in various parts of the United States, while foreign business is conducted by an English subsidiary.

Shortage of tankers has compelled shipments of asphalt by railroad to company's eastern plants. Resultant higher costs, as well as increased taxes, affected profits for the six months ended June 30, 1942, net income dropping to $0.67 per share of capital stock, from $1.47 per share for the first half of 1941.

The 1941 year-end balance sheet disclosed cash holdings slightly in excess of total current liabilities. Dividends to date in 1942 have amounted to but $0.30 per share, as against $1.75 for the full year 1941. However, it is to be noted that of last year's total, $1.25 was paid in December. It is probable, therefore, in view of the company's sound financial position, that another substantial payment will be made on the capital stock before the end of 1942. But total payment almost certainly will be less than last year.

A section of the grinding and polishing units in one of the plate glass plants of the Pittsburgh Plate Glass Co.

Washington (D. C.) Gas Light Co., has paid something on its common stock in every year since 1866. This company and its subsidiaries supply gas service in the metropolitan area of Washington, embracing the District of Columbia and adjoining territories in Virginia and Maryland.

The tremendous growth in population of the nation's capital during the past two years is furnishing many new outlets for the company's facilities. Operating revenues have continued to expand, but costs and taxes have offset these advantages. Net income for the twelve months ended July 31, 1942, was equal to $1.84 per share of common, compared with $2.45 per share in the corresponding months a year earlier.

Since 1939, dividends have been paid on the common at the annual rate of $1.50 per share. It is possible, because of capital requirements for construction purposes, that the basis of payment may subsequently be reduced in the near future, but it seems improbable that any interruption in the 77-year record of payments will occur.

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Priorities system, slated for the scrap heap a month before Pearl Harbor, is on its way to being liquidated in favor of the allocations system. Long favored by the Army-Navy Munitions Board, allocations will be put into effect gradually. Material after material will be placed under allocations control. As each is covered, the existing system of priorities ratings and the Production Requirements Plan for it will be scrapped as of no further value.

> ### *Washington Sees:*
>
> After much confusion, uncertainty and hesitation, the Government is launching an attack on the labor shortage front. Neither Congress nor the Administration have been willing to come to grips with the problem of manpower scarcity and both have allowed it to muddle along.
>
> Already the Manpower Commission has set up "critical shortage areas" in which workers in certain industries cannot change their jobs without Government permission. War Production Board Chairman Nelson has "ordered" a 48-hour week for an industry—logging—whose labor need was acute. Civil Service Commission has received sweeping power over the lives of 2,300,000 Federal workers, power to transfer them from job to job in the service whether the employees like the transfer or not.
>
> These are only the initial thrusts in the attacks on labor shortage front that will move right along the line from industry to industry. The real all-out offensive, however, has not yet been launched and it won't get under way until the elections are over. This is just another of the unpleasant legislative matters that Congress has been happy to put off until the votes are in. After the ballots are counted unessential industries won't be allowed to operate uncurtailed while war industries are suffering stoppages from labor scarcity.

Railroads will receive no relief from W P B plan to step up deliveries of materials to those authorized to receive them under the Production Requirements Plan. Unable to get deliveries on their relatively high preference ratings, carriers approach the winter with track, equipment and facilities facing toughest use in history. In wartime traffic does not fall off as in normal times to offset winter operation difficulties. Rail customers will have to excuse slower transportation, interruption of traffic and schedules revised without notice.

Motion picture industry, ordered by W P B to take a 10 to 24 per cent cut in film as a starter, is considering switch from present 4-sprocket to 3-sprocket projector to save celluloid. Idea is that slower projection would allow use of shorter films. When decision is made plan will not be adopted. It would require changeover of machines in studios and 17,000 theatres, 80 tons of steel, new machine tools and skilled workers needed in war work.

Radio industry can count on continuing broadcast service without curtailment for only a limited time. Tubes used in transmitting are the crux of the problem. These are consumed in substantial quantities and there is a question of how long W P B will be able to make supplies available. Greater conservation by broadcasters means longer uncurtailed broadcasting service.

W P B handicap has been the failure of the Army and Navy to say what kinds and amounts of weapons they want produced, when they want them delivered and how much scarce materials will be required for them. The services have promised to overcome this obstacle and furnish a statement of future requirements this month. But it is a big order and will be subject to future revision anyway.

AS WE GO TO PRESS

Purpose of Selective Service Director Hershey's warning to family men to get ready to go into the Army is twofold. First is to force pressure from home on Congress to act on the 18 and 19-year-olds. Second is to get family men in the Army because under most recent plans they are both wanted and needed.

Six months ago the Army and Selective Service were saying they didn't want the older married men because they don't make as good soldiers as more adaptable and flexiple younger men. The Army is expecting heavy casualties and is now making plans for an army of from 10,000,000 to 13,000,000 men.

From a military standpoint the Army regards it as unwise to exhaust its supply of the youngest and most able-bodied men. This would leave a residue of older less able-bodied men who might have to bear the brunt of the heaviest and determining fighting of the war. For this reason many younger men may be held off as reserves for the later decisive battles.

WPB is about to crack down on firms refusing to sell copper at the Government-set-price. One-fourth of known inventory supplies are being withheld from the market in the hope of forcing a higher price. Holders don't stand a chance of getting it. They sell or else!

If you're looking for sub-contracts on war work you'll find the WPB weekly Directory of Contract Opportunities a short cut to locating prime contractors who may be hunting for facilities like your own. Quick reference indexing shows whether there are job opportunities which your machines or combinations of machines can handle.

There's no end in sight to to the growth of Leon Henderson's organization of price controllers. Nation-wide gas rationing will force OPA to boost its army of 30,000 paid workers to 50,000 within the next few months. Henderson will have to ask Congress to raise his $120,000,000 1943 appropriation. The lawmakers on Capitol Hill won't want to but they'll give him the money anyway.

You will soon again see the canned and packaged foods missing from retailers' shelves because of prohibitive costs back on sale. OPA will enable storekeepers to restock them under an alternative pricing system. The price controllers, however, are afraid to tell the people that the prices will be increased. OPA is hinting that goods will be returned to shelves at savings to consumers. Actually prices will be higher.

Civilian Pilot Training System is a sore disappointment. It is turning out only one-fourth of the pilots it could. Responsible for failure are three shortages: (1) planes in hands of operators in the system, (2) pilot instructors, (3) mechanics to repair and service the ships.

Look for more curtailments on glamor by WPB. Its order outlawing 2-color leather shoes for everybody and limiting shades to six, as a means of forcing sole leather conservation, will be followed by more "standardizing" in wearing apparel and other lines of personal items. The policy of glamor-as-usual is out

WPB has become increasingly sensitive to criticism. Not only have officials and employees been warned against talking to newspapermen, but now it seems they've been ordered to discontinue any contacts or discussions with members of Congress unless they get official clearance to talk. It's a safe bet contacts will be maintained with Capitol Hill and discussions will go on.

A survey of war industries that will need labor priorities is being made by WPB. Idea is to assure plants of workers necessary to keep essential work going.

Civil Service Commission is finding it hard to get workers for offices in Washington. To get $1,440-a-year junior clerks it's appealing to patriotism and practically begging those who took exams before and failed to try again. CSC promises that requirements have been relaxed, that the new exam is "simple" and "short".

Look for a Government campaign to get homeowners to take in "war guests". To ease the housing situation in overcrowded defense areas homeowners will be urged to open extra rooms to war workers. Government is already considering compulsory billeting if voluntary means fail.

Surveys of housing situations in crowded defense areas are showing that despite low rental vacancy rates communities can provide living accommodations for many more workers. Studies show that dwelling units are nowhere near the 1½ persons per room limit which the Government regards as the start of overcrowding.

Agriculture Department experts and the WPB Foods Requirements Committee are worried over the food outlook. This year's crops are in the record class but a maximum harvest and canning output are not expected. Price ceilings have a discouraging effect on production, but worst factors are shortages of farm labor and workers in the canning industry. There is little expectation that the Manpower Commission will solve this problem early enough.

You can look for a separate food administration to be set up. For some time there has been a feeling on all sides that such a move was necessary. Production Chief Nelson is making a final effort to see if the WPB Foods Requirements Committee can be made to work. But move to put food administration under one roof is gaining wide support. Agriculture Secretary Wickard will remain chairman and the new set up will go into his department.

If you're on Government mailing lists for publications and press releases your mail is going to be lighter. OWI Chief Elmer Davis is about to order discontinuance of a long list of periodicals, reports and handouts that have been regularly put out by Federal agencies. He won't stop there either. A committee will re-examine remaining publications and ask for death warrants for those which can be be dropped without much loss.

Home Owners Loan Corporation which has remained uncooperative in pushing fuel oil conservation is yielding to Congressional pressure. HOLC will order its homeowners to convert from fuel to coal if they have not already made the change.

Even now Federal agencies letting contracts for public buildings in oil rationing areas are advertising for bids for fuel oil furnaces. People back home are asking their Congressmen why they are being asked to convert while the Government still goes on installing oil heating equipment.

Democratic Congressmen returning to the Capital after trying to mend their home fences find the coming election trend against them. They find the voters grumbling and dissatisfied with the conduct of the war. Particularly sore spots are the handling of the draft and of rationing. How many seats the Republicans gain will depend on whether war news before elections is very good or very bad.

Another Look At...

CONTINENTAL CAN—GENERAL AMERICAN TRANSPORTATION
GLIDDEN—NATIONAL BISCUIT
WESTINGHOUSE ELECTRIC

BY THE MAGAZINE OF WALL STREET STAFF

Continental Can Co.

Restrictions placed upon the use of tin, as a sequel to the occupation of the great tin producing regions of the Far East by the Japanese, considered in connection with direct production of military equipment, have substantially altered the character of the operations of Continental Can Co., during the past year. Although no recent information is available with regard to such war equipment output, the company several months ago announced production of such items as metal parts for training gas masks, canisters for service gas masks, bomb fuse containers, gun oil cans, ration cans, and cans for soluble coffee, as well as a number of other articles for military use. In addition thereto, the company was also supplying customers whose products were sold in large quantities to the Government for the Army, Navy and for lend-lease purposes, and was also making a variety of containers for military components.

This company ranks second among American manufacturers of tin containers. Under normal conditions, about two-thirds of output are used by packers of fruits, milk, meats, vegetables and other perishable foods, with the remainder utilized by manufacturers of chemicals, tobacco, coffee, motor oil, and beer, and also in general lines. Can making properties are strategically located throughout the country.

The shortage of tin in this country has compelled reduction in the tin content of cans, and limitation of packing to essential food purposes. Morever, rationing of steel is interfering in some measure with the substitution of "black plate" for tin in the manufacture of cans. Meanwhile, the unusually large food pack this year will require large quantities of the company's products, which also include paper containers and corrugated boxes. Sales for the year obviously will be influenced in large measure by the ability to secure adequate supplies of raw materials for manufacturing needs.

Higher operating costs, as well as taxes, have retarded earnings progress in recent months. Net income for the twelve months ended June 30, 1942, was equal to $2.35 per share of common stock (the sole equity issue), compared with $2.88 per share in the previous twelve-month period. Profits for the full year 1941 amounted to $2.62 per share.

During 1941, cash holdings declined about $2,000,000, while inventories were nearly $8,500,000 higher. Bank loans in the amount of $6,000,000 mature during 1942. The necessity for providing for discharge of this bank obligation very likely accounts to some extent for the more conservative dividend policy followed since last May, when the interim payment was reduced from the rate of $0.50 paid quarterly during 1938, 1939, 1940 and 1941, and in March, 1942, to $0.25 paid each in June and September of this year. In other words, dividends are now being paid on a basis of $1.00 annually, which is still well under indicated earnings for the full year.

In view of the company's financial problems, it is uncertain whether the management will elect to continue payments at the present rate. Some dividend has been paid in every year since 1923, and it may be that this record will continue unimpaired. Nevertheless, the prominent position occupied by the company in its field war-

Glidden Co. has wisely found substitutes for scarce materials and added new products to offset loss of imported lines.

rants a constructive long-term attitude toward the shares at present depressed market levels.

General American Transportation Co.

Shortage of tanker transportation on the Atlantic Coast has created an unusual demand for the facilities of this company, manufacturer and owner of the largest fleet of tank cars in the United States, for the movement of petroleum to the Eastern seaboard. Not only is the company's equipment used for transportation of oil, but it also finds wide utilization in the movement of food products, alcohol, commercial acids, chlorine, asphalt, molasses, milk and liquefied gases. About 56,000 cars are operated for various industrial purposes. Other normal activities include the manufacture, purchase and sale of all kinds of railway freight cars.

Participation in direct war production has been extensive. During 1941, the company built several plants for production of munitions, and armament work has been considerably expanded for such items as shells, armor plate, boilers, and other war materials. Meanwhile, the W P B restrictions on raw materials are seriously interfering with the manufacture of freight cars, and 1942 revenues from this source will be considerably under those of last year. Among the company's other activities which are being adversely affected by the war are its terminal storage divisions, where operations have been sharply contracted consequent upon the cessation of coastal and inter-coastal transport. General American owns storage facilities for 5,400,000 barrels of bulk liquids, which makes the company the world's largest public liquid storage organization.

Earnings have been in a declining trend since 1940, net income for that year amounting to $4.11 per share, followed by recession to $3.75 per share last year. For the six months ended June 30, 1942, profits were equal to $1.20 per share, compared with $2.31 per share in the first half of 1941. Dividends have been paid on the common stock in varying amounts in every year since 1919. The sole 1942 payment to date was $1.00 per share on July 1, this comparing with $3.00 distributed in 1940 and 1941. Further payments are probable before the year-end, although it is doubtful whether the total for the year will equal the 1941 payments. In this connection, it is pertinent to observe that outstanding serial equipment notes at the end of 1941 totalled $28,768,000, of which approximately $3,000,000 mature annually. Cash holdings at the end of 1941 amounted to only $2,713,000.

For the duration of the war, operations will be conducted at close to capacity levels. Official indications are that profits derived from war contracts will be of comparatively small proportions. Return to peace-time conditions will witness a considerable immediate demand for rehabilitation of railroad rolling stock, which should contribute toward maintenance of a fairly satisfactory level of operations for this company. However, in view of the more efficient use being made of rail equipment, and affording consideration to the possibility of recession in rail company earnings, it is patent that revenues from rentals and from storage sources, rather than from manufacturing operations, will constitute the larger proportion of the aggregate in the post-war period. Meanwhile, the common stock, selling at the lowest prices since 1940, at around 38, holds interesting long-term market appreciation potentialities.

Glidden Company

Shortages of materials resulting from the exigencies of war have compelled intensification of research activities on the part of the chemists of Glidden Co., with the result that not only has the company found substitutes for scarce materials, but new products have also been added to the company's lines to replace those formerly imported. Among these may be mentioned a new varnish for the inside of food cans, which makes possible a thinner tin coating, and an enamel used on the inside of cans for packing such foods as crabmeat, shrimp and tomato juice. As a substitute for improved bitter almond oil, used as a flavoring for cooking, a large part of which was formerly obtained from Spain, the company's chemists have developed a process for extracting this oil from apricot pits. Other innovations include a new quick-drying oil for paints, while in order to conserve tin, the company will package small quantities of paints in glass jars and in wood containers. Moreover, in connection with the growing scarcity of canvas, resulting from large Army demands, the company has produced a coating to prolong the life of canvas and of duck products such as awnings and tarpaulins.

The business of this company consists of four principal divisions: (1) paint and varnish; (2) chemical and pigment; (3) food products, and (4) soya products. Products of the company are widely utilized not only among domestic consumers, but also among industrial, railroad and steamship organizations. Although no details of sales are furnished in the corporation's annual statements, some idea of the relative importance of each division may be gained from a statement of invested capital as of October 31, 1940, which revealed investment of 35% in the paint and varnish division; 30% for food products; 24% for chemicals and pigments, and 11% in the soya products division.

Sales of the company for the present fiscal year, to end October 31, 1942, are reported to be running about 25% over those of a year ago. How large a portion of improving revenues the company will succeed in carrying through to net income will depend considerably upon the tax bill eventually to be enacted. Inasmuch as Glidden's fiscal year does not coincide with the calendar year, much depends on whether the company's taxes will be computed on 1941 rates, or whether the inevitably higher 1942 rates must be employed as a basis for tax computation.

Indications are that the directors of the corporation are inclined to await developments in this connection, and this consideration finds reflection in omission of the payment on the common customarily authorized in late September. Payments immediately preceding such action were $0.30 on July 1 and $0.50 on April 1, 1942. Earnings on the common for the six months ended April 30, 1942, were equal to $1.07 per share, compared with $0.99 per share in the similar period a year earlier. Notes payable in the amount of $6,000,000, and maturing in the current fiscal year, were outstanding on October 31, 1941, while cash holdings were but $2,262,000.

Near term outlook for the common stock, therefore, does not appear especially encouraging, although as a long-term holding the sound trade position of the company accords the stock certain speculative appeal.

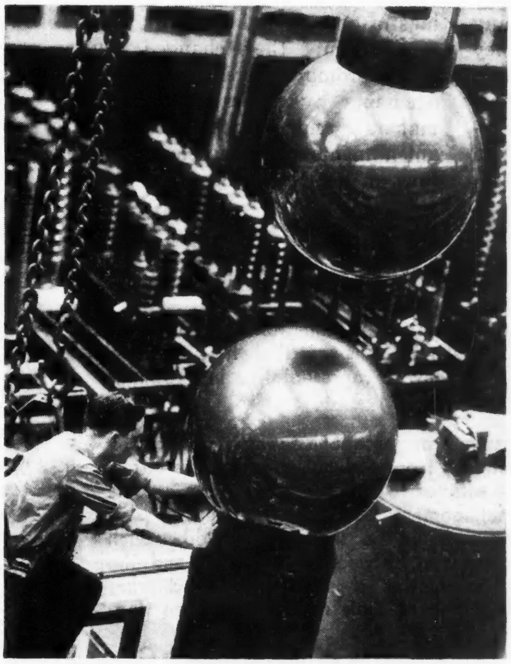
National Biscuit Co.

Nationwide sales of bakery products, aided by enhanced consumer income, are reported to have increased during the first half of 1942. In this sales improvement, National Biscuit Co. undoubtedly participated, although the company's semi-annual earnings report did not reveal the volume of goods marketed during that period. Profits for the half year, after allowance for the preferred shares, amounted to $0.58 per share of common, compared with $0.78 per share in the corresponding months of 1941.

This company is the world's largest producer of crackers, and also manufactures and sells cereals, bread, cake and other bakery items. Plants of the company are located in various parts of the country, and distribution of merchandise is nation-wide in scope, although the larger portion of sales is in the northeastern states. Operations are also conducted throughout Canada and the British Isles.

Examination of earnings statements of this company over the past decade reveals a general trend toward lower profits, interrupted by recoveries only in 1936 and 1938. For instance, net income amounted to $2.44 per share of common during 1932, a year of sharp contraction in corporate profits. In 1941, earnings reached a post-depression minimum of $1.43 per share on the common, compared with $1.50 in 1940. Higher taxes were responsible for the less favorable exhibit of 1941, and while no official data are available, Federal levies undoubtedly accounted for the poorer showing in the first six months of 1942.

Reduction in the quarterly dividend from $0.40 to $0.30 per share of common, effective with the payment for July 15, 1942, and continued with a similar distribution for October 15, had been foreseen as a result of the statement made by a vice-president of the company in March last, who vouchsafed the opinion that if corporate taxes were advanced, dividends might be reduced. With respect to future distributions on the common, the company's strong current positions, with cash and Government obligations in the total of nearly $31,000,000 at the end of 1941, compared with total current liabilities of only $14,700,000, suggests that payments may be continued on the present reduced basis of $1.20 annually per share, at least for the immediate future.



Westinghouse production covers almost unlimited range of products, for every conceivable use.

At prevailing prices of around 15 per share, a yield of 8% is provided. The company's strong trade position and excellent long-term prospects entitle this issue to consideration, for income and moderate price appreciation.

Westinghouse Elec. & Mfg. Co.

With unfilled orders reported at record levels, operations of Westinghouse are being devoted principally to the armament program. In addition to the usual electrical apparatus manufactured for other companies engaged in war work, Westinghouse is also turning out a diversified line of equipment, such as control units for guns, radio equipment for the army and the navy, bomb fuses, plastic parts for airplanes, and propulsion equipment for naval and merchant vessels. Moreover, in connection with the synthetic rubber program, the company has begun construction of three large steam turbine generators to be installed in Pennsylvania and Indiana chemical plants engaged in such activities.

Plants directly operated by the company are located in various parts of the country, while other interests include substantial holdings in Canadian, French, Spanish and Japanese manufacturing organizations. Several radio broadcasting stations are also owned.

Recovery in earnings that materialized in 1939, and which carried through 1941, was checked during the first half of 1942, when net income declined to $6,732,000, equal, after preferred requirements, to $2.10 per share on 3,126,581 shares of common, compared with $11,568,000, or $4.33 per share on 2,592,155 shares of common, for the first half of 1941. The difference in the volume of outstanding common stock is accounted for by new financing accomplished during the final half of 1941, when the company offered, at $70 per share, 534,426 shares. Proceeds of the sale were utilized to defray the cost of expansion of manufacturing plants, as well as for general working capital purposes. Moreover, during 1941, the company sold $20,000,000 2⅛% ten-year debentures.

In view of increased charges and receding earnings, the reduction in the company's distribution on the common shares from $1.00 to $0.75 quarterly, effective with the payment of August 28, was not unexpected. The former rate had been maintained since August, 1940. Whether the company will choose to continue payments at the new rate will be influenced by many factors, not the least of which will be the character of the new tax law. Payments at the $0.75 rate involve disbursement of about $2,350,000 quarterly. Cash and Gov-

(Please turn to page 669)

What the New SEC Proxy Rules Will Mean to You

BY LAURENCE STERN

It is now expected that the S E C will promulgate its new proxy rules during the first half of October and that—despite opposition from corporate interests—the changes will be identical with the draft of proposed revisions released by the Commission in the forepart of September.

In correcting the abuses and potential abuses inherent in the present relationship between corporate managements and absentee minority stockholders, the S E C cannot do the whole job. It is too bad that it has to do—or thinks it has to do—any of it. Stockholders would like to have a more genuinely democratic relationship to corporate managements. If they can't get it any other way—and it seems that they can't in the case of some companies—it will naturally be at least partially provided for them by a Federal agency, whose primary function is the protection of the investing public. Yet that means a further step in Government regulation of our corporate enterprise system—a trend which most stockholders view with either misgiving or mixed emotions.

The first formal criticism of the pending changes in proxy rules has come in a statement issued to the press by the Commerce and Industry Association of New York. It sounds familiar, about as follows: Under the guise of regulating proxies, the S E C would assume power, not conferred by Congress, to regulate annual reports to stockholders; it would interfere with internal management in requiring publicity on executive remuneration and dealings of officers and directors with a corporation; the changed rules would promote harrassment of managements by professional trouble-makers and blackmailers; the amendments would accelerate trend toward not soliciting proxies and thus further tend to disfranchise stockholders; the amendments would increase the administrative burden on listed companies but not on unlisted companies; they would further complicate regulations which should be simplified; in some respects the changes are impractical; the revisions would distract executives from giving full attention to production for war, etc.

With due respect to the authors of this statement, it smacks of the kind of arguments used from the start in the losing fight against the whole series of security market reforms beginning in 1934. It does not acknowledge that there is anything that needs reform. Don't rock the boat. Leave things as they are.

Let's take a brief look at part of the address made by Ganson Purcell, chairman of the S E C, in announcing that revision of proxy rules was under way.

"Theoretically," said Mr. Purcell, "the proxy device was set up to enable the far-flung ownership of a corporation to participate in the direction of its affairs. As we all know, it has been sadly prostituted."

The first sentence is obviously correct. It is surely true that the present proxy system provides merely the theoretical form, rather than the fact, of stockholder participation in company affairs. To the second sentence a qualified exception can be taken. It is too sweeping. Mr. Purcell would have been on stronger ground had he said: "As we all know, it has been sadly prostituted *by some managements*." By no means do *all* corporate managements use their privileged, strategical position merely to feather

"Don't Look To Washington"

"We shall be making a mistake running to Washington with our grievances against excessive corporate salaries. It is true that the protective association, we hope to form, must have a representative in Washington, to prevent vicious legislation.

"Further, we should not assume an antagonistic attitude toward corporate management, as such. As I pointed out in a previous letter, let us, by all means, pay liberal salaries to capable corporation officers while they are active in the management, but excessive bonuses, pension rights, and other privileges should be sharply curtailed. Such matters could and should be adjusted between stockholders and the management. The protective association should act as a clearing house, and represent stockholders where their rights have been flagrantly disregarded."

WM. JOHNSEN, N. Y. C.

Stockholders' Forum

their own nest and perpetuate themselves in lucrative jobs. But some do and others can. How is abuse or potential abuse to be checked except by S E C proxy rules which at least give the absentee stockholders a better opportunity to act in protection of their own interests? Of course, all too many stockholders will not take advantage of improved opportunity. The S E C can't do anything about that and neither can this department of this publication—except repeatedly to exhort stockholders to use their proxy vote intelligently after careful study. To paraphrase an old adage: You can lead a man to information, but you can't make him think!

The following is a brief summary of the more important proposed changes in proxy regulations:

(1) Under present rules, information on executive remuneration is required only with respect to directors who are nominees for office and then only if the director receives one of the three highest remunerations paid by the company. Under the amendment, remuneration of all officers and directors would be revealed in tabulated form, showing total salary and bonus, company payment for retirement plan if any, estimated annual benefits on retirement, and stock options granted. Footnotes on this page of the revised proxy statement would be expected to note briefly any important changes in remuneration during the preceding year; give the date options were granted, expiration date and price; report exercise of any option, with date, number of shares and closing market price on the day option was exercised and report any loan made by the company to any officer or director. In addition, there would be required a tabulation by salary groups of all directors, officers and employees receiving $25,000 or more a year. Thus—$25,000-$50,000, 5 persons, total $159,286; $50,000-$100,000, 2 persons, total $133,228; over $100,000, 1 person, $123,961.

Also the new rules would require disclosure of all dealings, with respect to transactions which are material, between officers or directors and the corporation. At present, only disclosure of a sale of property by an officer or director to the company is required. For example, if a director is in the fuel oil business, the S E C would consider it pertinent that the company disclose it buys all its fuel oil from said director's firm. In addition to stock ownership, it would be indicated when a director first became a director and his status would be briefly described. For instance, "John Doe—President, Drovers' National Bank, Chicago—1937 (the year when he first became a director)—10 shares preferred, 25 shares common."

(2) The proposed rules would require that proxy solicitation material be accompanied by a report of the activities of the corporation during the preceding year, including comparative financial statements. Material in the nature of the ordinary annual reports to stockholders would be filed with the S E C as part of the proxy soliciting material. Most companies make such reports to shareholders. For these, the change would merely be that such reports would have to be filed as part of proxy solicitation procedure. More important, companies which have not issued adequate annual reports to stockholders would be required to make them in order to solicit proxies.

(3) The rules propose an extension of the right of stockholders not connected with the management. At present, if a stockholder advises the management of his intention to submit a proposal for action at a stockholders' meeting, the management must include in its proxy soliciting material a statement of the proposal and an opportunity for stockholders to vote on the proposal. The change would permit inclusion of a 100 word statement by the minority stockholder, explaining the reasons for his proposal. Management, of course, would retain its right to comment in opposition, and at any length it chose. The amendment would also require that minority stockholders be given opportunity to nominate directors or auditors to be submitted to their fellow stockholders by means of a proxy. They would have to give the same information about such nominees required for nominees of management.

(Please turn to page 669)

Abuse of Fiduciary Duties

"In the Stockholders' Forum you referred to several court decisions in which it was held that officers and directors of various important corporations had abused their fiduciary duties and taken advantage of the trust—or helplessness—of stockholders. You overlooked one case.

"Minority stockholders brought suit against the American Metal Company, charging resources of this company had been used to further the development of the Climax Molybdenum Company, to the benefit of the latter and to certain officers and directors of the former as insider stockholders in the Climax Molybdenum Company. Justice Shientag in the New York Supreme Court upheld the major contentions of the plaintiffs. Unfortunately, due to the statute of limitations, all except one defendent got away with the earlier wrong-doing. If stockholders had been more vigilant—or if at the time there had been a system of proxy regulation making concealment of pertinent information impossible or difficult—that could not have happened. When one sees the Big Shots of such great corporations as General Motors, Bethlehem Steel, American Tobacco and American Metal adjudged guilty by courts of profiting improperly at the expense of stockholders, I have to wonder how many other instances go undetected! Every case like this emphasizes the crying need for stockholder self-protection through organization; or—if that can't be done—protection from the Government."

J. B. W., Detroit, Mich.

6

Securities Yielding

8%

with Ample Coverage

BY J. S. WILLIAMS

THE shrewd investor who is interested in obtaining maximum yields consistent with current safety of income has a fairly large range of choice. There are quite a number of second-grade railroad bonds (though there are relatively few industrial or utility) which currently yield over 8%, and are earning interest requirements with a very substantial margin of safety. The principal reason is that savings banks and life insurance companies, which many years ago bought these bonds as high grade investments and then saw them decline to very low levels during the 1930's, have been anxious to unload them from their shelves. Last spring one important insurance company liquidated a very substantial part of its railroad bond portfolio, and others sold large blocks of "so-called" border line rail bonds. This might seem like a short-sighted policy at a time when rail earnings have been mounting rapidly, but the institutions take a long-pull view and many of them are doubtless fearful of heavy traffic competition for the railroads after the war.

Some of the financial services were also lukewarm or bearish on rail bonds a few months ago. At that time the theory of a short war was more in fashion than at present, and hence the prosperity of the railroads was deemed likely to be short-lived. However, most of the border line railroads have made such rapid progress in retiring their floating indebtedness and improving their cash position that these services now take a more optimistic view and their bulletins on railroad securities have again assumed a bullish tone.

Southern Pacific and New York Central are two old line railroads which came into some disfavor with investors in recent years because of their large floating debt and unfavorable earnings. New York Central in the ten year period 1931-1941 barely covered its fixed charges on the average; in 1938 there was only 59% coverage. However, since that year there has been a consistent recovery and current monthly earnings, projected on a seasonal basis, are at the rate of about 2½ times charges. Cash assets now approximate nearly 52 million dollars and the road has retired over 100 million dollars debt. Early retirement of the 3¾s of 1946, possibly even the 3¼s of 1952, is now considered possible. The present strengthened condition should permit the road to weather any financial storms during the next five to ten years, it is estimated. Accordingly, the New York Central Refunding 5s of 2013, currently around 52 and yielding current income of over 9½%, are the first selection for our list.

Southern Pacific Debenture 4½s of 1969, around 53 and yielding about 8½%, are also included.

Southern Pacific has made even a more remarkable comeback than New York Central. Its ten-year average coverage of fixed charges was 1.17; its monthly earnings are now about 3½ times charges. Net quick assets have increased from about 18 million dollars as of June 30, 1941 to nearly 65 million dollars recently. Floating debt has been wiped off, but the road differs from the New York Central in having some heavy maturities over the next few years, including $55,800,000 secured 3¾s of 1946, $34,000,000 Central Pacific Collateral 4s of 1949, and $25,000,000 San Francisco Terminal 1st 4s due 1950. However, if earnings continue at current levels for another two years, and cash is not dissipated in dividend payments, a very substantial part of these bond issues—possibly the entire amount—could be bought up in the open market for retirement in advance of maturity.

It is difficult to make any forecast regarding institutional policies as to further liquidation of second-grade railroad bonds, but it is possible that now-prevailing views regarding a longer war—and consequently a long period of prosperity for the railroads—may tend to dry up institutional liquidation. In that event border-line rail bonds might show a substantial appreciation from current levels, for most of them sold at substantially higher levels as recently as 1937, when earnings were much smaller.

A large number of preferred stocks is currently selling

to yield over 8%, but few of these have ample earnings in excess of dividend requirements. After canvassing the list we suggest the following two issues:

Republic Steel 6% Convertible Preferred, currently selling around 73 to yield 8.2%; and Erie new $5 Preferred around 42, yielding nearly 12%. Republic Steel 6% Preferred (to be distinguished from the "A" 6% Preference stock) is a second preferred stock, but is a relatively small issue, with only about 57,000 shares outstanding, and a purchase fund set aside by directors gradually reduces the size. In the 12 months ended June 30 $84 a share was earned on the Preference A stock, and $468 on the Preferred. During the first half of 1942, despite high taxes, the total amount of fixed charges and dividend requirements on both preferred issues was covered over 3.3 times.

Republic Steel's current position at last year-end was strong. Cash amounted to nearly $46,000,000 and current assets were 3.4 times current liabilities. Like most of the large steel companies its earnings record reflects "feast or famine" conditions. However, while deficits may again be encountered in the future as they have been in the past, the present strong position should protect the company for years to come.

Moreover, the company has grown enormously. Sales last year were over 10 times those of 1932 and it is now the third largest steel manufacturer in the country. It converts a greater proportion of its steel into manufactured shapes than any other leading steel company—which may stand it in good stead in the post-war period when both the auto and building industry will demand large amounts of fabricated steel products. Normally about one-quarter of the output is taken by the auto industry, with the balance distributed among several of the steel-consuming industries.

Bessemer Converter at Republic Steel. Like most big companies, its earnings record reflects "feast or famine" conditions.

Erie's new $5 preferred is in our opinion entitled to a much better investment standing than would seem reflected in the current market price. Last year $23.73 per share was earned on the new preferred, after allowance for the capital fund and sinking funds, and this year at least $27 should be earned (current monthly earnings are at an estimated rate of about $38 per share). An initial dividend has been paid on the new common stock and another year-end disbursement seems possible, as the current cash position remains excellent.

The search for two common stocks with substantial yields, of companies in strong financial position, resulted in the selection of these well-known issues: National Distillers and Commercial Investment Trust.

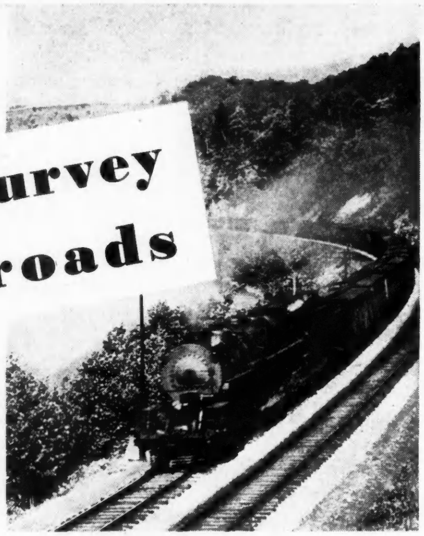
National Distillers is currently selling at 25 to yield 8%. The company has been paying the current $2 dividend rate (or more) since 1929 with the exception of 1932-4 ($1.00 was paid in 1932, nothing in 1933 and 50c in the following year). Earnings have been remarkably steady, ranging between $3 and $4 in the past 7 years; there have been no deficits since 1928. The 1942 earnings have been running ahead of last year despite much higher taxes; for the six months $1.21 was earned compared with $1.01 last year. The company in May refunded its bank loans through an issue of $15,000,000 3¼% debentures.

Commercial Investment Trust, the world's largest dealer in installment paper, is currently selling around 28 and paying $3, to yield well over 10%. Dividends have been paid for about 18 years without interruption, and during 1936-41 the rate was $4 or more. However, this year the rate was reduced to 75c quarterly, the latest payment being October 1. "CIT" has a remarkably good earnings record; due to its wide diversification and the "lag" in earnings as compared with sales, it was able to come through the depression year of 1932 with earnings of $1.41, though most industrial companies showed losses that year. In 1935-7 earnings averaged around $5 or $6; since then around $4. In the 12 months ended June 30, $3.82 was earned. Despite the loss of most of its automobile business in 1942, the company reported 90c earned in the June 30 quarter; it is understood to be expanding its operations in the war activity financing, and is also negotiating for the acquisition of several manufacturing firms engaged in war production. The company has trimmed expenses to meet reduced operations, and also has safely weathered increased Federal taxes.

However, the principal point of interest about this stock is the asset value back of it. Furniture and fixtures are carried at the ridiculously low figure of $6 in the balance sheet. The company as of June 30 this year had cash assets of over $53,000,000 and receivables of over $420,000,000, while re-possessed cars amounted to only about $300,000. The equity for the common stock was nearly $31 a share. With present national conditions, repossessions will doubtless continue to be negligible, and hence receivables may be considered almost as good as cash. Even if the installment business should dry up completely, the company should be able to liquidate out, pay off all its debts including the bonds, retire the preferred stock and have sufficient cash on hand to cover the current market price of the common stock. While the market value will continue to fluctuate, it is hard to see how a long term investor could lose much of his equity; and the gradual liquidation of receivables on books should keep company in a strong cash position.

Wartime Profits to Continue High, but Peace Will Bring Problems

Investment Survey of the Railroads



BY FRANK R. WALTERS

THE rapid rise of the railroads in speculative and investment esteem during the past year or so may be considered a sequel to the fortunate conjunction of a number of political and economic factors, not the least of which is a growing disposition on the part of our lawmakers to accord greater recognition to the indispensable role played by the carriers in our national economy.

Freight movements are the heaviest in the history of the roads, with authoritative estimates that such traffic, as measured in ton-miles, will aggregate about 30% more in the full year 1942 than during last year, while total passenger transportation, measured by the same method, will be approximately 50% more this year than in 1941.

During the past decade, the American railroad plant has been thoroughly rehabilitated; equipment has been replaced and modernized; track and roadbed strengthened to accommodate heavier and faster trains; unprofitable lines and departments abandoned; campaigns to publicize the advantages of railroad transportation have been aggressively conducted—while all-around operating efficiency has been measurably improved.

Entry of the United States into the world war found the carriers in excellent condition to handle the heavy volume of business offered them, and such war traffic has been further enhanced as a result of unusual demand for tank cars to replace oil tankers either sunk by enemy action or diverted to trans-ocean traffic.

On the political side, perhaps the most constructive factor is the proposed tax relief, which would have as its objectives, (1) permission to the railroads to purchase their own bonds at a discount without being obliged to pay a capital gains tax on the difference between the purchase price and the original issue price of the bonds, and (2) permission for recently reorganized roads and those in process of reorganization to retain their old capital bases for tax purposes. Because of the larger former capital base of the reorganized carriers, and in view of the fact that present capitalization of bankrupt roads will be substantially reduced upon reorganization, the resultant smaller invested capital base would increase the liability for excess profits taxes, which therefore might offset much of the advantages of reorganization. Enactment of the proposed legislation will encourage the roads to use a portion of their rapidly mounting cash holdings to retire a considerable volume of their outstanding indebtedness, as well as to make available larger sums for distribution to shareholders.

In view of the tremendous interest in railroad securities, survey of certain of these issues is timely, in order to ascertain which among them may offer attractive opportunities from a standpoint of income, actual or potential, as well as of price appreciation possibilities.

Interim Profits Higher

Reporting earnings of $7.79 per share of common for the six months ended June 30, last, as against $1.89 for the similar 1941 months, Atchison, Topeka & Santa Fe can easily maintain common dividends at the recent rate of $1.50 quarterly, thus providing a yield of about 13% on the current market price. Atchison has no important bond issue maturing before 1958.

Atlantic Coast Line Railroad, whose revenues have been aided by the shipping shortage, reported $14.57 per share on its common stock for the seven months ended July 31, 1942, compared with $8.40 in the corresponding period a year earlier. Dividends of $1 were paid in 1941, but no disbursement has been made to date in 1942. As a price speculation, the shares hold interesting possibilities, while among the company's bonds, the general unified 4½s of 1964 provide a current yield of about 7%. Charges were covered 4.15 times after income taxes in the first seven months of this year, as against 2.86 times in seven months ended July 31, 1941.

Substantial increases in taxes are responsible in considerable measure for the failure of Cheseapeake & Ohio Railroad to maintain the earnings improvement registered in recent years. Net income for the seven months ended July 31, 1942, was equal to $1.80 per share, as against $2.41 per share of common in the same 1941 pe-

riod. Finances are in excellent condition, and indications are that the regular $3 dividend will be maintained.

Chicago Great Western Railway Co. (to which reference was made in the Sept. 19, issue of this publication) reported earnings of $1.10 per share of preferred, after all charges, for the seven months ended July 31, 1942. No comparison with the preceding year is available. An initial dividend of 62½ cents on the 5% $50 par preferred was paid September 30, applying to accumulations from January 1, 1941. Revenue prospects and likelihood of continuing distributions on the preferred arrears, which amount to $4.37½ per preferred share as of Oct. 1, 1942, afford this issue speculative appeal at current market prices.

Attractive Railroad Securities for Income or Appreciation

Issue	Approx. Price	Yield %
Bonds		
Chicago Great Western cum. inc. 4½s, 2038	40	11.2
Cleveland Union Terminal 5s, 1973	68	7.4
Erie cum. inc. 4½s, 2015	53	8.5
Gulf, Mobile & Ohio inc. 5s, 2015	54	9.3
Louisiana & Arkansas 5s, 1969	79	6.3
Michigan Central 4½s, 1979	58	7.8
Southern Pacific 4½s, 1968	53	8.5
Southern Railway gen. 6s, 1956	87	6.9
Reorganization Road Bonds		
Chicago Rock Island & Pacific, 4s, 1988	29	(b)
Denver & Rio Grande Western 5s, 1978	18	(c)
St. Louis-San Francisco 4s, 1950	21	(d)
Seaboard Air Line 4s, 1950	23	(e)
Preferred Stocks		
Atchison Topeka & Santa Fe $5	68	7.3
Erie $5 "A"	42	11.9
Gulf, Mobile & Ohio $5	28	8.9
Reading Co. $2 2nd	23	8.7

(b)—Default July, 1934, interest. (c)—Default April, 1935, interest. (d)—Paid $5.75 a/c Jan., 1933, and $6.17 a/c July, 1933, int. in Nov., 1941. (e)—Default Apr., 1931, int.

Erie Railroad Co., also reorganized in 1941, shows profits of $2.59 per share of common stock and certificates of beneficial interest for the seven months ended July 31, 1942. Whether the initial dividend of $0.50 per share on the common and certificates will be duplicated before the year-end is a question. Reorganization has placed this carrier on a strong financial basis, and its long-term prospects are excellent. At current market prices, the junior issues comprise attractive speculations.

Great Northern Railway earned $3.42 per share on the preferred (the sole equity issue) for the seven months ended July 31, 1942, compared with $2.76 for the similar 1941 months. Dividends to date in 1942 amount to $1 per share, compared with $2 paid last year. It is probable that full payments for this year may equal those of 1941, although a liberal dividend policy is unlikely in view of the need for anticipating rather heavy maturities in 1946. As a price speculation, this issue is fairly attractive.

Revenues of Gulf, Mobile & Ohio Railroad rose 32% during the first seven months of 1942. Net income was equal to $6.20 per share of preferred, as against $3.96 in the similar months of 1941. Dividends of $2.50 per share were paid in 1941, but no distributions have been made thus far in 1942. In (*Please turn to page* 668)

Mass movement of troops and supplies to army camps and to embarkation points on the Atlantic and Pacific Coasts has jammed passenger yards and taxed personnel and facilities to the utmost.

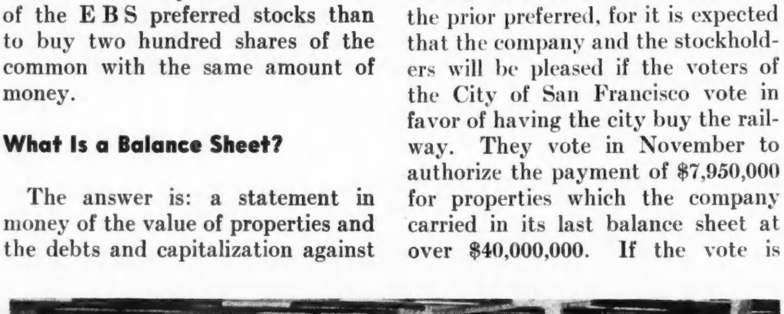
FOR PROFIT AND INCOME

Has the "Long Lane" Turned?

It is a long lane which hath no turning. That is something that may have originated in Chaucer, or maybe it was the Book of Proverbs. It could only relate to the public utility stocks, which have been in a bear market for thirteen years. In the past few weeks, these stocks have had strong spells, while the preferred issues have had close to a bull market. Some of the utility preferred stocks, most notably Twin Cities Transit and American & Foreign Power preferred shares, have more than doubled the low of the year. The reason in the case of these stocks is a greatly improved outlook. Some of the other public utility preferred stocks have acted better because of the prospects for larger payments in split-ups, under the S E C orders, than the recent markets had hoped for. There are other reasons, including the hope that the Senate Finance Committee will get the combined surtax-normal tax down to 40%, also that a recent proposition to allow public utilities to deduct preferred dividends before computing taxable income will be put into the law. It is a long way from where public utility stocks once sold to where they are now, but at least, they seem to have left the basement in which they have resided for many months. The warning is given, however: do not buy any of these stocks just because they are low in price. For example, until Electric Bond & Share preferred stocks have received their full value, in dissolution, the common has no equity. Therefore, it might be a better idea to buy five shares of one of the E B S preferred stocks than to buy two hundred shares of the common with the same amount of money.

What Is a Balance Sheet?

The answer is: a statement in money of the value of properties and the debts and capitalization against them. Here are some things from a balance sheet as of December 31, 1941, which stated the value of bonds and preferred stocks and common stock at par, plus a surplus account. The dollars, translated into book values, showed over $300 a share for the prior preferred, over $450 a share for two small issues of second preferred stocks, and a book value of $131 a share for the common stock. Next look at market values for these stocks: the prior preferred about $11 a share, the second preferreds, practically nothing, the common, nothing. Furthermore, the company had deficits foı years and years. The company referred to is the Market Street Railway, and as far as values go, its balance sheet as of the end of last year might as well have shown a book value of $10,000 a share for the prior preferred, for it is expected that the company and the stockholders will be pleased if the voters of the City of San Francisco vote in favor of having the city buy the railway. They vote in November to authorize the payment of $7,950,000 for properties which the company carried in its last balance sheet at over $40,000,000. If the vote is



Rows upon rows of electric control panels—giving a graphic picture of the volume of General Electric's production for war purposes. These are for the Navy.

NON-CALLABLE BONDS OF HIGH INVESTMENT RATING

Name	Maturity	Price	Approximate Income Yield	Yield to Maturity
Short Term—Next Three Years				
Alabama Great Southern first 5s	Dec. 1, 1943	104½	4.78%	1.37%
Liggett & Myers Tobacco deb. 7s	Oct. 1, 1944	111½	6.28%	1.75%
Louisville & Jeffersonville Bridge first. 4s.	Mar. 1, 1945	105	3.77%	1.65%
Ogden Gas first 5s	May 1, 1945	108	4.61%	2.02%
Brooklyn Union Gas first 5s	May 1, 1945	105	4.85%	3.83%
Lehigh & New England first 5s	July 1, 1845	105½	4.74%	3.13%
Four to Nine Years				
Oregon RR & Navigation first 4s	July 1, 1946	117	3.73%	2.31%
Union RR deb. 6s	Sept. 1, 1946	113	5.31%	3.16%
Georgia RR & Banking ref. deb. 4s	Jan. 1, 1947	103	3.85%	3.04%
New Amsterdam Gas first con. 5s	Jan. 1, 1948	113	4.43%	2.32%
P. Lorillard deb. 5s	Aug. 1, 1951	119½	4.18%	2.56%
Ten to Fifteen Years				
Louisville & Nashville Terminal first. 4s	1952	105½	3.79%	3.35%
Queens Borough Gas & Elec. gen. 5s	1952	116	4.31%	3.12%
Joplin Union Station serial first 3s	1955		about a 2.80% basis	
Connecticut Power first 5s	1956	127	3.21%	2.68%
Over Fifteen Years				
Memphis Union Station first 5s	1959	118	4.24%	3.59%
Wichita Union Term. serial first 2¼, 2¾, 2⅞	1961		about a 2.65% basis	
Edison Elec. Illum. first con. 5s	1995	155	3.22%	2.90%
Norfolk & Western first con. 4s	1996	125	3.20%	3.07%
Perpetual				
Atlantic Coast Line irredeemable 5s	....	87	5.75%	......

affirmative and the properties sold, it will provide enough for debts and to retire the bonds and leave somewhere over $10 a share for the prior preferred stock. There are some real estate holdings which will not be included in the sale, worth possibly $3 to $4 a share on the prior preferred. Some figures place the possible liquidating value of the prior preferred between $16 and $17 a share. That is a long way from the balance sheet figure, while the other preferreds and the common would have nothing left over for them.

Timken-Detroit Axle Earnings a Surprise

Some time prior to the release of the Timken-Detroit annual report for the year ending June 30, 1942, the directors cut the dividend from $1.00 a share to 50 cents a share quarterly. As a result, it was expected that the annual report would show a sharp falling off from the $5.01 a share reported in the previous year. Hence, the statement, when released, was a surprise, showing $5.25 a share for the past fiscal year. In the 1941 fiscal year, the company paid $12,000,000 taxes. In the 1942 year, taxes were $34,500,000. The company would seem to be in line for a refund, possibly several dollars a share, if the 1942 tax bill as finally passed has in it the provision that all taxes above 80% of net taxable income shall be refunded. Even if only a $2 dividend is maintained, the stock seems to be underpriced in view of such earnings and the possibility that they will be increased by some refund after the war. Timken-Detroit has had an odd price history, as the stock sold higher in 1941 than it did in 1929 also it was one of the issues which went to absurdly low figures in the 1932-3 period, selling far under its net quick asset value per share when it made a low of 1½. The after-the-war outlook for the company is also favorable, as its main peace-time business had been in making axles for trucks.

Bonds Which Cannot Be Called

Every manager of investment funds finds a time when some bond issue is called for redemption. Those who plan longer term investments where income is the sole consideration, are often annoyed when this happens. Presented in the accompanying table are a number of non-callable high-grade bonds of various maturities. Each one of them has a rating by the more prominent services in the first, second, or third position—in other words in the classifications which would make them available for investment by commercial banks. The perpetual bonds do not have a rating, as the rating services cannot rate any issue that does not have a maturity date, but they are in a strong position as to protection and earnings.

Two Low Priced Coal Stocks

The coal business has been good and promises to be better. Some of these companies are earning more than ever before in their history. One example is Ayrshire Patoka Collieries, which is selling near 5 on the Curb. The company earned $2.30 per share in 1941 fiscal year and $1.41 in 6 months ended last Dec. 31, or approximately enough in 18 months to cover the present price of the stock. No recent earnings have been published. This stock sold as high as 9 a year ago.

United Electric Coal, on the Stock Exchange, selling at about 6, has also had good earnings in relation to the price of the stock, with earnings of $1.40 a share for the July 31, 1942 fiscal year, or about double those of a year ago. The company is located near large industrial centers and there are indications that its sales and earnings will increase materially during the next few months.

Both of these mining companies operate "strip mines," with coal seams near the surface of the land, which are reached with steam shovels which remove the dirt and then operate on the coal which is exposed.

Facts Which Are Hard to Believe

In our last issue, mention was made of the new St. Paul preferred, when issued. There are a number of other receivership roads which are earning almost unbelievable figures on the capital which it is proposed they will have under pending reorganization plans. Thus it is figured that if the New Haven, for example, were now operating on the capital set-up in the reorganization plan, the 1942 income would provide for all charges and preferred dividends several times over and leave close to $20 a share this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

National Distillers Products

Acting upon your advice, I now show a nice profit on my National Distillers holdings—and am writing to ask if you would advise additional purchase at present prices. Income from this stock is, of course, good—but I would like your opinion as to its appreciation possibilities. In round figures, what should the production of ethyl alcohol for war purposes mean to National Distillers' sales? Will it be a factor in this year's earnings?—Mrs. R. L., Williamsport, Pa.

National Distillers Co. showed a gain in operating income for the first six months this year of $549,000, being about 55 per cent above that of the corresponding months of 1941. Federal taxes of $2,468,000 were nearly 2½ times larger than similar levies for first half of 1941. Nevertheless, the company succeeded in registering earnings progress and net income was equal to $1.21 a share as against $1.01 in the respective half-year period. Over the period just ahead a large percentage of facilities may be devoted to production of ethyl alcohol needed in prosecution of the war, but with ample inventories on hand reduction of whiskey stocks is not likely to affect earning power seriously.

In retiring $11,000,000 of indebtedness to banks and to provide additional working capital the management in May, 1942, marketed $15,000,000 seven-year 3¼ per cent sinking fund debentures. In addition to these there is roughly $20,200,000 debenture 3½s of 1949 ahead of the 2,045,451 common shares. On the latter, regular quarterly dividend of 50 cents a share over the past seven years have been maintained and the continuance of this rate is in prospect. The net working capital of $5.21 millions is sufficient for all inventory carrying purposes. Currently selling at 25⅝, up from 17½, the stock is at a new high for the year, is in the vanguard of a slowly rising equity market. The yield of nearly 8 per cent coupled with the factors of safety make this security an attractive purchase for further appreciation and income.

Phelps Dodge Corp.

Do you believe it wise to average at this time on my 100 shares of Phelps Dodge, for which I paid 34½ . . . in anticipation of market betterment for this stock during the remaining months of the year? In this connection, has the full impact of the new Morenci Mine's huge output been fully reflected in the figures on latest earnings reports? What are the dividend prospects?—D. W., Portland, Maine.

Phelps Dodge and subsidiaries reported for the six months ended June 30, 1942, net profit of $5,532,900 after interest, depreciation, obsolescence, amortization, reserves of $250,000 for post war losses and adjustments of $9,200,000 for taxes. This is equal to $1.09 per share on the 5,071,260 shares of capital stock. Taxes are computed on the 1942 bill as passed by the House. This compared with net profit of $1.38 in the first half of 1941. This year's output will be increased by 100 million pounds from the new open pit mine at Morenci, Arizona. This $34,000,000 project is bringing its first full fruit after five years of development. Faced with higher taxes this may enable the company to maintain its last year's earnings record. The new taxes on the basis of last year's earnings would have been $3.48 per share and would have left $2.12. This does not endanger the $1.50 dividend of which $1.20 has already been paid.

The balance sheet shows working capital totaling $35.4 millions with the ratio of current assets to current liabilities of 2.4 to 1.

Currently selling at 24⅞ the stock is within $3.00 of the year's low. The securities markets in general show a slow but steady upward surge. The coppers are a well known laggard group, tending to rise later than many other groups.

(Please turn to page 670)

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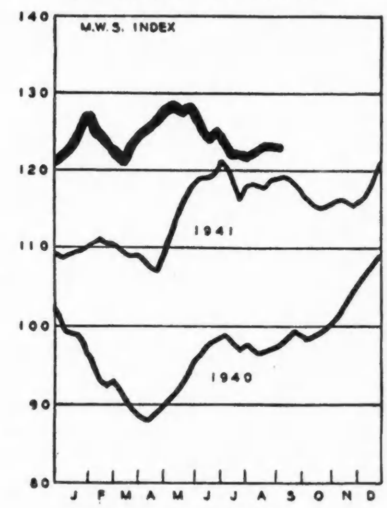
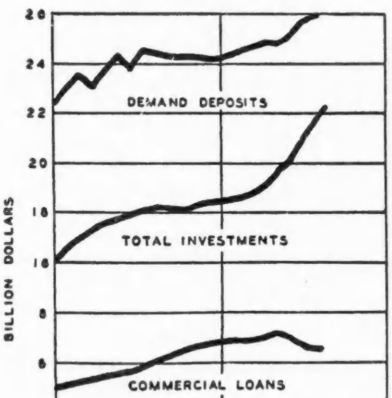
The Business Analyst

BUSINESS ACTIVITY



BUSINESS CREDIT



FEDERAL RESERVE MEMBER BANKS

CONCLUSIONS

INDUSTRY—Machine tool bottleneck broken. Lease-lend aid still inadequate.

TRADE—Seven months' exports $4 billion, up 50%; imports only $1.6 billion, off 11%.

COMMODITIES—Major commodity markets gain strength; due Congressional pressure to revise parity prices upward.

MONEY AND CREDIT—Government will not interfere with savings accounts or other bank deposits, present or future.

Per capita **business activity** dropped sharply during the past fortnight despite maintenance of production in armament plants over Labor Day. For the month of July, **new orders** booked by manufacturers were 20% below June; but 29% ahead of July, 1941. **Shipments** during July were 2% ahead of June and 24% larger than a year earlier. Non-agricultural **employment** (exclusive of the armed forces) is estimated at 37.1 millions for July, an increase of 2.2 millions over a year earlier. The President says that our **munitions** output is at only the half-way mark. W P B Chairman Nelson, predicts that, by mid-1943, around 60% of our total production will be for war purposes, against the present 40%. Since 64 million tons of **steel** per annum (75% of present capacity) now go for war needs, and since the industry's total capacity will reach only 98 million tons by mid-1943, one wonders where the steel will come from to support so rapid an expansion in munitions output.

* * *

War expenditures in the eighteen months from March, 1941, to last August, inclusive, totaled $41.7 billion of which $6.5 billion, or 15.5%, was for **lease-lend** aid. Current aid is running at the annual rate of $8 billion (or only 12.4% of our total war cost) of which we estimate that $2.6 billion represents military items actually exported. The latter would amount to only 4% of our current annual war cost, of around $65 billion. During the 18-month period, goods exported

(Please turn to following page)

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Aug.	183	180	161
INDEX OF PRODUCTION AND TRADE (b)	July	118	115	131
Production	July	126	123	116
Durable Goods	July	143	138	123
Non-durable Goods	July	111	111	111
Primary Distribution	July	140	137	116
Distribution to Consumers	July	87	83	107
Miscellaneous Services	July	126	124	102
WHOLESALE PRICES (h)	Aug.	99.1	98.7	90.3
COST OF LIVING (d)				
All items	Aug.	98.1	97.8	89.4
Food	Aug.	101.0	100.3	87.3
Housing	Aug.	90.8	90.8	88.6
Clothing	Aug.	88.2	88.0	74.5
Fuel and Light	Aug.	90.4	90.4	88.6
Sundries	Aug.	105.0	105.0	98.8
Purchasing Value of Dollar	Aug.	101.9	102.2	111.9
NATIONAL INCOME (cm)†	Aug.	9,383	9,553	7,739
CASH FARM INCOME†				
Farm Marketing	July	$1,219	1,070	889
Including Gov't Payments	June	$1,125	1,030	798
Prices Received by Farmers (ee)	Aug.	163	154	131
Prices Paid by Farmers (ee)	Aug.	152	152	133
Ratio Prices Received to Prices Paid (ee)	Aug.	107	101	96
FACTORY EMPLOYMENT (f)				
Durable Goods	July	163.0	155.9	140.7
Non-durable Goods	July	126.1	124.6	126.3
FACTORY PAYROLLS (f)	July	202.4	197.7	152.7
RETAIL TRADE				
Retail Store Sales $†	July	$4,389	4,445	4,509
Durable Goods (a)	July	104.8	100.1	169.5
Non-durable Goods (a)	July	156.0	146.8	137.0
Chain Store Sales (g)	Aug.	182	177	151
Retail Prices (s) as of	July	113.1	113.1	99.6
FOREIGN TRADE				
Merchandise Exports†	July	$623	$604	$355
Cumulative year's total† to	July	3,986	......	2,398
Merchandise Imports†	July	233	201	264
Cumulative year's total† to	July	1,597	......	1,776
RAILROAD EARNINGS				
Total Operating Revenues★	July	$665,181	623,687	485,446
Total Operating Expenditures★	July	390,476	378,472	310,034
Taxes★	July	125,838	110,499	57,195
Net Rwy. Operating Income★	July	133,001	118,730	106,381
Operating Ratio %	July	58.70	60.68	63.87
STEEL				
Ingot Production in tons★	Aug.	7,233	7,148	6,997
Pig Iron Production in tons★	Mar.	5,113	4,458	4,704
Shipments, U. S. Steel in tons★	Aug.	1,788	1,765	1,753
GENERAL				
Paperboard, new orders (st)	July	393,968	379,375	569,252
Lumber Production† (bd. ft.)	July	2,967	2,861	2,946
Cigaret Production†	Aug.	20,940	20,875	17,777
Bituminous Coal Production★ (tons)	Aug.	47,160	47,700	46,651
Portland Cement Shipments★ (bbls.)	Aug.	21,282	20,501	17,825
Commercial Failures (c)	Aug.	698	764	954

PRESENT POSITION AND OUTLOOK

(Continued from page 661)

under lease-lend were valued at $3.5 billion the while goods purchased from us by lease-lend countries totaled $5.8 billion. Three years of war have cost **Britain** $50 billion, of which taxes have supplied only 40%, thereby doubling her pre-war debt of $33 billion. Currently her war expenditures are absorbing 54% of the national income, against 44% a year earlier.

* * *

More than 100 common stocks listed on the New York Stock Exchange have reported half-year per-share **earnings** above the like period last year. About 25% of these increases exceeded 100%. In a number of instances substantially larger profits would result from adoption of the Senate Finance Committee's recommended ceiling of 80% on corporate income taxes. **Dividends** declared during August were 9.6% less liberal than a year earlier, against a cumulative decline of only 2.5% for eight months.

* * *

Owing to continuing drainage of funds from New York and Chicago to war production centers, the Federal Reserve Board has lowered **reserve requirements** at those central reserve cities a second 2%, to 22% of demand deposits, thereby freeing an additional $400 million of reserves to replenish excess reserves. Further reductions in reserve requirements at New York and Chicago will probably have to be made in the not distant future; since thus far no effective steps have been taken to remedy the basic causes of this one-way flow of banking funds. In the past six months, to be sure, the Federal Reserve has purchased about $1.3 billion of Government securities, mostly from New York City banks, to offset in part the accompanying rise of $1.8 billion in circulation. Responding to repeated rumors, the Federal Reserve Board has again categorically disclaimed any intention to control **savings accounts,** present or future. It should be obvious without such denials that Government interference with deposit accounts would wreck our banking system, our armament production, and our war effort. No right minded person will give credence to such canards.

* * *

The S E C estimates "liquid **savings**" (exclusive of changes in valuation of property owned) at $6.5 billion for the second quarter—consisting of $2.7 billion in purchases of securities (mostly Governments), $2.1 billion in cash and deposits, $1.1 billion in insurance and pension reserves, and net debt payments of $0.6 billion. The total represents an increase of 136% over the like period last year.

* * *

Department of Commerce now estimates **farm income** for current year at $15 billion, or a billion more than estimated three months ago. **Living costs** rose an additional 0.4% from mid-July to mid-August, owing mainly to a jump of 2.2% in uncontrolled food prices. It now costs 9.7% more to maintain last year's living standards. Foods at wholesale average 14% dearer

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Sept. 19	120.6	120.4	118.0
ELECTRIC POWER OUTPUT				
K. W. H.†	Sept. 19	3,756	3,583	3,273
TRANSPORTATION				
Carloadings, total	Sept. 19	903,099	814,885	907,969
Grain	Sept. 19	50,590	45,396	44,839
Coal	Sept. 19	169,264	153,490	159,000
Forest Products	Sept. 19	50,017	46,291	46,424
Manufacturing & Miscellaneous	Sept. 19	421,827	378,989	399,414
L. C. L. Mdse	Sept. 19	88,479	79,278	160,224
STEEL PRICES				
Pig Iron $ per ton (m)	Sept. 24	23.61	23.61	23.61
Scrap $ per ton (m)	Sept. 24	19.17	19.17	19.17
Finished c per lb. (m)	Sept. 24	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Sept. 24	98.0	98.0	97.5
PETROLEUM				
Average Daily Production bbls.★	Sept. 19	3,935	3,902	4,074
Crude Runs to Stills Avge. bbls.★	Sept. 19	3,713	3,710	4,047
Total Gasoline Stocks bbls.★	Sept. 19	80,793	81,758	79,195
Fuel Oil Stocks bbls.★	Sept. 19	79,335	78,633	93,919
Crude—Mid-Cont. $ per bbl	Sept. 28	1.17	1.17	1.17
Crude—Pennsylvania $ per bbl	Sept. 28	2.55	2.55	2.23
Gasoline—Refinery $ per gal	Sept. 28	0.092	0.117	0.85
ENGINEERING CONSTRUCTION				
Volume★ (en)	Sept. 24	$147,699	206,028	147,699

PRESENT POSITION AND OUTLOOK

than a year ago, though other commodities have risen less than 5%. Clothing at **retail** averages 10% higher than last year.

* * *

For the first seven months of the current year **merchandise exports,** including lease-lend, were valued at around $4 billion—50% more than in the like period last year; while **imports** for our own use approximated only $1.6 billion—off 11%. **Chain store sales** for eight months were 13% larger than in the like period last year, with **variety stores** up 17% and **mail orders** off 3%. **Department store sales** this year up to Sept. 12 were 10% ahead of the like period a year earlier. Department store **inventories** as of July 31 were 67% above last year, despite the July rise of only 7% in sales, and sufficed to last 5½ months without replenishment.

* * *

Machine tool bottleneck is now broken. Output this year is estimated at 350,000 machines valued at $1.4 billion, an average of $4,000 per unit; compared with 194,000 units last year, valued at $0.77 billion. Requirements henceforth will be largely for replacement and improving efficiency rather than for initial equipment.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

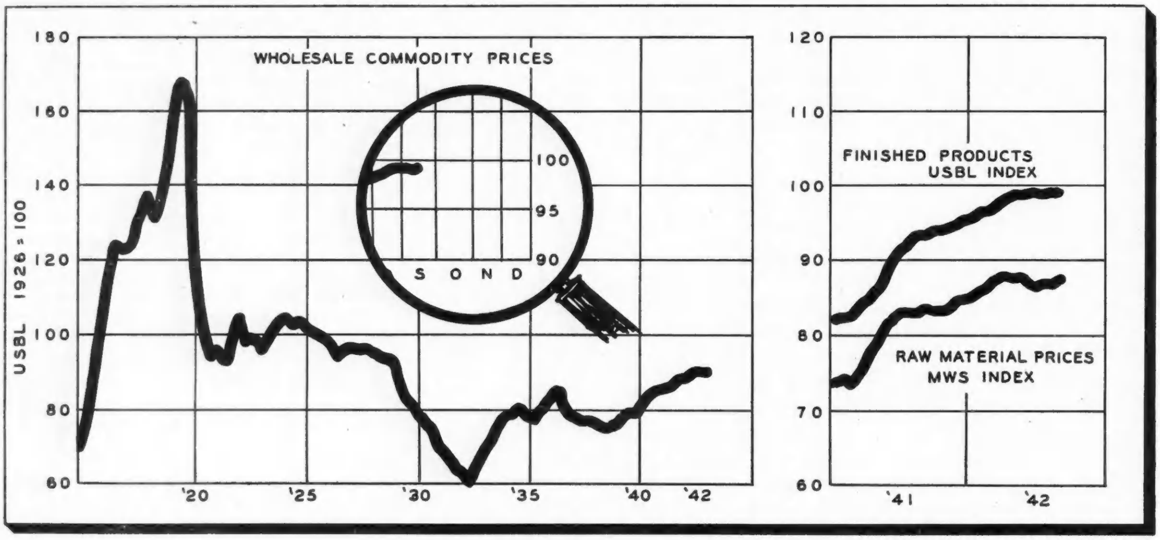
No. of Issues (1925 Close—100)	1942 Indexes High	Low	Sept. 19	Sept. 29
270 COMBINED AVERAGE	48.6	41.4	47.0	48.5
3 Agricultural Implements	87.9	72.7	84.4	86.0
9 Aircraft (1927 Cl.—100)	172.6	123.8	142.4	149.4
4 Air Lines (1934 Cl.—100)	284.4	178.4	273.8	284.4A
5 Amusements	36.8	27.0	35.4	36.8C
13 Automobile Accessories	79.3	70.4	76.7	78.4
13 Automobiles	9.7	7.1	9.1	9.6
3 Baking (1926 Cl.—100)	6.7	5.0	6.4	6.7A
3 Business Machines	108.4	81.7	105.5	107.2
2 Bus Lines (1926 Cl.—100)	64.6	38.2	52.2	52.6
6 Chemicals	156.3	126.3	143.3	148.0
14 Construction	19.6	16.4	18.7	18.8
5 Containers	163.1	138.4	154.4	158.6
8 Copper & Brass	75.1	58.6	62.5	64.1
2 Dairy Products	29.6	25.5	29.3	29.3
6 Department Stores	16.3	12.4	14.3	14.8
6 Drugs & Toilet Articles	44.9	37.1	44.9	44.3
2 Finance Companies	139.0	99.5	137.6	136.8
7 Food Brands	78.6	60.6	69.5	71.7
2 Food Stores	43.7	32.2	37.8	38.3
4 Furniture	29.1	23.7	28.2	28.5
2 Gold Mining	455.9	315.4	419.1	412.5
6 Investment Trusts	16.9	13.8	16.0	16.9A

(Nov. 14, 1936, Cl.—100)	1942 Indexes High	Low	Sept. 19	Sept. 26
100 HIGH PRICED STOCKS	51.96	43.20	48.91	49.83
100 LOW PRICED STOCKS	38.78	31.66	36.11	37.56
3 Liquor (1932 Cl.—100)	186.5	137.5	183.3	186.5C
8 Machinery	83.8	67.9	75.1	77.5
2 Mail Order	56.2	45.2	55.0	56.0
4 Meat Packing	46.0	29.5	32.5	30.4
9 Metals, non-Ferrous	131.7	100.0	105.4	107.7
3 Paper	11.3	8.8	8.8	9.5
21 Petroleum	74.6	59.8	71.2	72.6
16 Public Utilities	19.1	13.7	17.7	17.7
3 Radio (1927 Cl.—100)	9.9	5.9	9.5	9.6
7 Railroad Equipment	37.9	28.6	31.2	32.2
16 Railroads	9.9	7.6	9.1	9.6
2 Realty	1.9	1.3	1.4	1.8
2 Shipbuilding	112.0	84.2	88.7	94.3
12 Steel & Iron	65.0	53.1	56.0	58.0
2 Sugar	40.1	26.5	31.6	30.7
2 Sulphur	179.4	137.5	164.0	169.3
3 Telephone & Telegraph	48.0	30.6	48.0C	46.5
2 Textiles	34.2	24.4	28.3	30.5
3 Tires & Rubber	13.9	7.9	13.1	13.9B
4 Tobacco	55.3	40.7	48.5	47.7
2 Variety Stores	187.2	147.7	175.3	177.3
19 Unclassified (1941 Cl.—100)	109.9	90.8	102.1	108.8

New HIGHS since: A—1941; B—1940; C—1939.

Trend of Commodities

The past week commodity prices in the free markets existing responded to Washington price control developments. They advanced on most fronts. Wheat sold at best prices since early summer. Cotton moved higher due to short covering, touching new high levels for the movement. Cottonseed oil was also higher. Wool was stronger. The current trend of these commodities was upward, despite the Administration threat to freeze price levels at some past level. As a result commodity prices are at a 16-year peak. On September 19, the Bureau of Labor Statistics wholesale price index rose to 99.3 per cent of the 1926 average, with price movements confined largely to farm products and foods, with industrial markets relatively steady. Looking ahead, however, there can be no question that the future markets of the nation are at the cross roads. Price ceilings, and the movements of commodities under rationing regulations are inevitable, despite the conflict between Congress and the President as to parity interpretations. Their limitations on commodity markets will be of a nature to stifle all but little semblance to free market operations, and price trends of the past, based on supply and demand factors, speculation, and hedging practices.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1929, equal 100

	Sept. 25	Sept. 18		Sept. 25	Sept. 18
28 Basic Commodities.......	169.4	168.4	Domestic Agricultural	186.4	183.3
Import Commodities	162.7	162.7	Foodstuffs	190.3	187.6
Domestic Commodities	173.9	172.1	Raw Industrial	155.1	155.1

Commodity Briefs

Sugar. In an effort to assure a more equitable distribution of sugar O P A has issued an order designed to eliminate the "cross hauling" of refiners' output through the setting up of a new zone system, replacing the existing fixed zones. Under the new order, refiners in one zone will not be allowed to make shipments to another zone except in cases of emergency. Under the old system primary distributors were permitted to serve one or more zones. The objective of the new plan is to eliminate uneconomic transportation practices.

Dairy Products. Bureau of Agricultural Economics recently predicted that civilian demands for dairy products next year probably would far outstrip dairy production. This has been followed by reports from Agricultural Department sources to the effect that a system of rationing will be placed on dairy products within the next two months because of rapidly decreasing milk production, which is already insufficient to meet wartime demands. The first step in this program will probably take the form of allocation-curtailment of milk to ice cream, butter, cheese and other dairy products industries.

Flour. Spurred by new price legislation prospects heavy buying of flour has taken place in the past fortnight, as nervous on-the-fence flour buyers left the sidelines and resumed purchasing. Eastern chain bakers were reported seeking large additional supplies. Many buyers booked their requirements in this buying spurt to cover several future months. Business in the southwest was touched off by a 300,000 sale to a large baking concern.

Coffee. Coffee roasters have been permitted by the O P A to increase their inventories of green coffee to a 90-day supply. Previous quota restrictions allowed a 60-day supply. Imports of coffee are improving. The total for this reason is placed over 14 million bags, equivalent to 62 per cent of this year's quota.

Lard. Stocks of lard in Chicago decreased over 12 million pounds during the first half of September, leaving only 13 million pounds of accumulated supplies on hand, for the mid-September total, the lowest supply level on record, and compared with 164 million pounds stored supply, September 15, 1941. Much of the supply disappearance is due to large volume lease-lend buying.

Wool. Consumption of wool reached the highest daily average on record during July according to data compiled by Government sources, or the equivalent of 2.9 million scoured pounds. Consumption for the month is estimated to have totaled 52.7 million scoured pounds, compared with 47.0 million pounds in June, and 42.8 pounds in July 1941.

How Coming Manpower Shortage Will Affect You

(*Continued from page 642*)

for unions? You know the answer to this!

Taking all of the foregoing observations into account, it seems a reasonable surmise that if you now hold an essential war industry job the chances are very strong that you will be frozen into for the duration; but that, if you hold a non-essential job, the chances are equally strong that the Government will avoid the many complexities involved in commanding you to shift. After all, economic inducement has already brought about the major portion of the total shift toward jobs and is probably capable of completing the full shift.

Naturally, as we scrape the bottom of the labor barrel, our difficulties multiply. With some 30,000,000 individuals needed for the armed services and war work, obviously getting the last 5,000,000 is many times harder than getting the first 5,000,000.

There is estimated to be today a labor reserve of about 4,500,000 persons. This figure is based on Department of Commerce sampling of people who state that they are willing to take jobs, if offered *in their communities*. Many are young people and married women unwilling or unable to take jobs other than in their own communities. There are still some 2,200,000 unemployed, a goodly percentage of whom are really unemployable and many of whom are also unwilling or unable to move to war-plant communities. Hence, to say that we have now a total labor "'reserve" of 6,700,000 people is largely meaningless. In war plant communities the actual, effective labor reserve is virtually exhausted.

But we have a fairly large potential labor reserve, consisting of people—especially women—who have not heretofore even considered seeking or taking jobs. Their numbers would not necessarily be indicated fully by the Department of Commerce sample survey previously referred to. A skillfully directed patriotic appeal and good pay offer the best means of getting them into the labor market, rather than Federal compulsion. Already the sex composition of our total labor force is radically changing, as it did during our World War I effort. Over the past year alone the total of women in the labor market has increased by 1,100,000 while the total of men has decreased by 1,300,000. These divergent trends will continue and be intensified.

Finally, getting more people into the labor market is not the only available answer to the manpower problem. Another and even more effective answer would be longer hours of work for present employees of the war industries. In this respect, we are still fighting a very soft war as compared either with our allies or our enemies. In England, most war workers put in from 55 to 70 hours per week, with straight pay for 47 hours, time and one-quarter for hours above 47.

Here the standard week is 40 hours, with time and one-half above that. Our highest average of work being performed in 54 hours a week by machine tool workers. In steel and iron products the June average, latest official figure available, was 42.6 hours per week, almost unchanged from a year ago. In machinery as a whole it was 48.1 hours against 45.6 hours a year before. In transportation equipment — which includes aircraft—it was 46.7 hours against 43.8 a year ago. In non-ferrous metals and metal products

it was 44.6 hours, against 43.1 a year ago.

Moreover, many thousands of able-bodied men are sitting on stools doing light factory jobs that women could handle just as well; and there are many thousands of "helpers" who are just about as skilled as the men they are helping. What is even worse, the Government still tolerates union rules which limit output per worker.

It is quite true that there is a work limit beyond which efficiency of the worker greatly declines. What is the average limit? It varies with the type of work. Also it appears to be one thing to a hard-boiled factory executive—who probably is working 60 to 70 hours a week himself—and something else to some social research worker in a Federal department. But to the layman it surely would seem that in the war industries an average of 50 hours of work per week, with properly spaced short intervals of rest and good plant environment, would neither impair worker health nor lower efficiency. Losing the war would not be so good for labor's cherished health, either. A 50-hour week could lift war production of itself quite substantially.

The truth is that British mobilization of both manpower and materials is far ahead of us in over-all efficiency and effectiveness. True, there are compulsory controls, but the major fruits have come and continue to come from voluntary co-operation. British labor is psychologically in the war—which is understandable since its men and women are close to the war, have heard the bombs fall and seen or felt the stark results. American labor is only partly in the war. If it were really in the war, the unions themselves would urge a longer work week in the war plants.

Only under the positive leadership of Mr. Roosevelt could our labor be brought into the war with both feet and without reservation—to produce to the maximum.

At best, however, we face a severe squeeze in our most basic resource: —human beings. In the United Kingdom some 23,000,000 people have been mobilized for full national service, either in the armed forces or essential work or services. That is, roughly, 48 per cent of the population and 70 per cent of those between the ages of 14 and 65. As suggsted by the experience of Britain, and by fragmentary reports of German labor difficulties, mobilization of 50 per cent of a total population appears to be just about an absolute limit.

If we attained it, some 67,500,000 people would be gainfully occupied or in the armed services by the end of next year, instead of 63,500,000 tentatively projected in the table at the bottom of page 642.

It remains to be seen who will control this mobilization. The bill independently introduced by Senator Hill would turn it over to the present Selective Service system, which at first glance seems logical; but the teeth of compulsion in this bill look weak. Mr. McNutt, of course, wants to handle the whole thing, and would have to set up a great new bureaucracy to do it. Secretary Wickard, of Agriculture, has already begun gingerly to talk up farm labor controls and no doubt will try for a hand in this part of the matter.

The legislative machinery of manpower mobilization will move at a snail's pace until after the elections. It is not likely to produce a law until well after the turn of the year. It is anybody's guess whether by that time the basic war outlook may or may not have changed enough to affect the Government's mobilization decisions.

What 80% Corporate Tax Ceiling Means to Profits and Dividends

(Continued from page 637)

rate limit could work equitably.

In principle there is something to be said for limiting contract change to one renegotiation. Yet, as heretofore, there will be continuing instances of radically improved operating techniques being adopted which will lower costs and provide much larger gross earnings than had been anticipated by either the contractor or the buying agencies. Greedy contractors would have inducement to hold back on such improvements until a contract had been put beyond the possibility of renegotiation, then cash in.

The opposite variable in appraising war earnings potentialities—tending to increase net income—is increasing volume. In many cases the outside analyst has no basis for forecast since orders, sales, details of plant expansion and capacity are withheld as "military secrets."

Yet this is not by any means as bad as it may sound. Bear in mind that the Army, Navy and Maritime Commission officials responsible for contract prices are interested most of all in maximum production. They are not grinding any political axes. They are not "social reformers." They are not crusading against profits as such. All they are trying to do is to enforce fair and reasonable contract prices—prices which will not result in cases of scandalous profiteering being dumped into their laps by some future Congressional investigating committee.

Bendix Aviation is, in various respects, a perfect example illustrating many of the points made in this article. First, under an 80 per cent tax ceiling, it could earn substantially more on the identical volume than was reported in its most recent interim income statement. For the nine months' fiscal period ended June 30, it reported net of $5.22 per share. The writer calculates that on an 80 per cent tax limit, the figure would have been approximately $7.31 per share or about 40 per cent more. Secondly, it was reported some months ago that the company had "turned back" $73,354,000 to the Government in reduced contract prices, and possibly there has been more since then. Third, sales volume has mounted geometrically and there are further large gains ahead. Sales were about $42 millions in 1940, more than $156 millions last year. Before the present lid of such information was clamped down, it had been officially indicated that production plans looked forward to around $500 million in 1942 and close to $1 billion in 1943. This suggests more than a ten-fold gain in volume this year over 1940 and for 1943 volume more than six times greater than in 1941 and twice that of the present year. All one can say about a situation like this is that, at an 80 per cent tax limit and despite any probable contract renotiations, net income in all probability will remain very large, though not exorbitant. Some would call it "handsome."

In a few instances, as shown on the accompanying tabulation, first half-year earnings per share, under an 80 per cent tax ceiling, would have been more than double those reported. Other things being equal—that is, leaving possible contract renegotiation and future volume gains out of the reckoning—a company subject to 90 per cent tax (as Yellow Truck would be, for instance) would have its net doubled by an 80 per cent tax ceiling. If otherwise subject to effective rate of 85 per cent, the tax ceiling would lift net by one-third.

Though nothing is certain in war, it is to be doubted that 1943 tax—which most observers believe will inevitably come—legislation will involve radical change in the corporate tax system, so far as principle is concerned. That is, Congress, as heretofore, will almost certainly stand adamant against imposing a flat-rate limit of return on invested capital. The thing that most likely will concern investors in next year's tax changes will be an increase in the combined normal and surtax rate—probably to at least 50 per cent. Maybe even to the 55 per cent that the Treasury has been urging. That would sharply lower earnings of many companies, but would fall heaviest on the non-war companies without the cushion of swollen volume. It is something to keep in mind as you appraise "peace stocks" that are now quoted at pretty substantial price-earnings ratios.

Effect on U. S. Economy—as World Supplies of Basic Materials Change Hands

(*Continued from page 634*)

countries may be at the rate of 100,000 tons per annum and cover about two-thirds of the United Nations' requirements. At the same time, tin consumption is being cut down. A host of substitutes ranging from plastics to paper has been developed, and the new tinning processes are said to require from one-tenth to one-third as much tin as previously.

The problem of steel alloys is chiefly that of development of new sources. With the steel output of the United Nations countries running around 130,000,000 tons a year, the requirements of nickel, chromium, tungsten, molybdenum, antimony, vanadium and of manganese are staggering indeed. The world requirements of chrome ore were estimated to be in 1940 nearly three times as large as in 1918. The output of manganese was put at 6,500,000 tons or about four times as much as in 1918. These towering needs and the loss of important tungsten deposits in China and of chrome and manganese ore in the Philippines to Japan are forcing intensive exploitation of deposits in the Western Hemisphere and Africa. As in the last war, we too are once more opening large, but low grade, and in some cases metallurgically difficult, deposits of tungsten, chrome and manganese ores in this country. There are reports of new treating methods. If costs are lowered, some of our newly opened alloy mines may survive this war.

As to silk, the third largest import item from Southeast Asia, access to which is now barred, the development of the rayon industry and more recently the introduction of nylon has greatly mitigated the shock of its disappearance. Silk will probably never again retain its former importance in this market, except where special uses are concerned, and the future belongs entirely to the new "made-to-order" synthetic fibers.

Imports of copra, coconut oil and various other oil-seeds and vegetable oil from Southeastern Asia filled about 10 per cent of our normal needs. The problem, as it shaped itself last spring, demanded an increased annual supply of about 1,000,000,000 pounds of fats and oils to replace the Far Eastern imports and at least another 500,000,000 pounds to meet the increased requirements of munitions industries (for glycerine) as well as to cover our commitments to Great Britain and Russia.

It now appears that because of the unusually favorable growing conditions and because of the larger acreage harvested, the vegetable oil production in 1942 will exceed the 1941 output by some 400,000,000 pounds. Heavier livestock slaughter is expected to account for an increase of about 800,000,000 pounds of lard and tallow, while the saving of kitchen fats may yield as much as 500,000,000 pounds. Considering that the production of vegetable oils has been also stepped up in Brazil and other Latin American countries, the supply outlook is, therefore, satisfactory, even though export demand is increasing.

What the effects of the development of new resources and new synthetic products will be on our post-war economic life depends in the first place upon the course and the length of the present conflict and upon the nature of the peace. Some of the newly opened mines or synthetic product industries are high cost producers and will be aban-

doned, once normal conditions are re-established. On the other hand, it is certain that the replacement of imported products by synthetic home products will create very complex vested interests. Consequently, it may prove impossible for political and, of course, also for strategical reasons, to abandon the production of certain synthetic home products such as rubber, even if they should prove uneconomical or embarrassing to our post-war trade aims.

At any rate, we shall emerge from the war with a greatly enlarged industrial plant and more nearly self-sufficient than in the period between the two wars. Such a development will bring a shift in our foreign trade and in our international balance of payments. Thus, it may happen that at the time when foreign countries are in desperate need of our raw materials, machinery and transportation equipment, our own import requirements will be smaller because of greater self-sufficiency achieved in war-time. How then will foreign countries pay for our goods, with the bulk of world gold already in this country? Or are we going to continue lend-lease arrangements into peace-time?

The solution will not be easy. We may be obliged for the sake of promoting international collaboration to surrender deliberately some of our war-won self-sufficiency. But other solutions are also possible. For strategical reasons—and they will carry weight after this war—we may insist on remaining as nearly self-sufficient as possible in regard to *producers' goods* (machinery, equipment) and raw materials needed for their production. That perhaps would justify our retention of the new synthetic rubber industry. But since trade collaboration, and some recognition of natural advantages of individual countries to produce special goods will be absolutely necessary in the post-war world if some sort of international security is to be obtained, we will have to liberalize our trade and let our purchasing power spread all over the world in some way. We could do it by letting down our tariffs on *consumers' goods,* textiles, leather products, furniture, toilet articles and on a great variety of specialty and luxury products. We could also encourage the so-called *invisible imports,* among which *tourist expenditures* are the most important. With a great development of air travel it would not be at all impossible for many more people to spend their free time abroad, especially if some provision could be made to obtain foreign currencies at lower exchange rates. As Vice-President Wallace has pointed out, again and again, we will have to adopt a wholly new attitude toward international collaboration and toward the problems of other nations, for international security does not mean only the defeat of the Axis Powers, but the establishment of a world in which all nations can be prosperous.

Investment Survey of the Railroads

(Continued from page 657)

view of the probability that some disbursement will be made on this issue before the close of 1942, the preferred possesses considerable appeal as a price-income speculation. Moreover, the income 5s, of 2015, upon which full payments have been made when due, comprise an interesting speculation at current prices of about 54.

Net income of Louisville & Nashville, for the six months ended June 30, last, was equal to $4.95 per share, as against $6.36 per share in the corresponding months of 1941, the decline being in the face of a rise of 37% in operating revenues during the 1942 period. This road enjoys an unusually strong current position, as indicated by its June 30, 1942 statement, and there is every reason to expect that full year dividends will equal the $7 per share paid in 1941. No important near-term bond maturities exist. The common shares hold considerable appeal at present prices of about 60.

New York Central, whose operating revenues are running nearly 30% over those for 1941, reported net income of $3.45 per share for the seven months ended July 31, 1942, compared with $2.36 in the same months of 1941. This road has been making rather large tax accruals, but it is possible that a small distribution on the common shares may be made sometime this year.

Pennsylvania Railroad shows profits of $1.93 for the first six months of 1942, as against $1.54 for the similar period of 1941. Cash on hand as of June 30, 1942, was in excess of $5 per share. Distributions on the capital stock, which have made annually without interruption since 1848, amount to $1 per share so far this year, and it is probable that total payments for 1942 may equal the $2 disbursed in 1941. On this presumption, the capital stock, at around 22, is attractive.

Reading Co., during the first half of 1942 reported profits equal to $3.07 per share of common, compared with $2.20 per share in the six months ended June 30, 1941. Dividends have been paid in some amount annually since 1905. A liberal yield is provided by the $1 annual dividend, at around 13.

Southern Pacific Co. reported net of $6.82 for seven months ended July 31, 1942, against $3.78 in same 1941 months. Resumption of dividends, after a ten-year omission, is possible in the near future. Fixed charges are currently being covered about 2.8 times. Current yields of 6½% to 8½% are available in the 4s of 1949, 4½s of 1977; 4½s of 1981; 4½s of 1968, and 4½s of 1969.

Southern Railway is currently covering charges nearly 2½ times. The Dev. & Gen. 4s, 6s, and 6½s, all maturing in 1956, provide current yields ranging from 6% to 7%. Despite improved earnings, no payments on the preferred shares are indicated for the near future.

Reflecting wide earnings recovery, Texas & Pacific junior liens have rallied considerably from the year's low. The 5s of 1977, 1979 and 1980 are still available at yields of over 7%. Rapid rise in price of common shares renders them less attractive than a few months ago. No dividends have been paid on this issue since 1931.

Union Pacific Railroad reported $7.77 per share for the first seven months of this year, as against $2.53 in the same period a year earlier. A yield of about 7½% is provided by the regular $6 dividend at prevailing market prices.

Wabash Railroad Co., reorganized nearly a year ago, shows profits of $7.74 per share of 4½% $100 par preferred for the first half of 1942. This issue, of which only 311,000 shares are outstanding, holds interesting short-term speculative appeal at current prices of around 25. An

initial dividend of $4.50 per share has been declared on this issue.

The ratio of recovery in presently outstanding issues of railroads in process of reorganization has been considerably greater than in the case of the solvent companies. This, of course, was logical, in view of the low levels to which the former had declined during the years of shrinking earnings. With drastic scaling down of capitalization inevitable in every reorganization situation, and expansion in earnings now featuring operations, the relation of earnings to the new securities that will probably be received in exchange for present issues finds reflection in improved market prices for the present securities in which trading is being conducted.

Examples of this are furnished by the issues of Chicago, Milwaukee & St. Paul; Chicago & Northwestern; Chicago, Rock Island & Pacific; Denver & Rio Grande Western; Missouri Pacific; New York, New Haven & Hartford; St. Louis-San Francisco; St. Louis Southwestern; Seaboard Air Line and Western Pacific, where recoveries in bonds and stocks have, in some cases, exceeded 100% since the beginning of 1942.

Expectations that the reorganizing roads may be permitted to retain their present capitalization bases for tax purposes, instead of the reduced bases that would result from reorganization, also have conduced toward the increased interest manifested in securities of the bankrupt concerns.

With railroad facilities being utilized to the utmost throughout the country, a high level of earning power for the carriers is assured for the duration. In the case of the systems being operated by their own managements, it is evident that net income is approaching the peaks that will be attained throughout the remainder of the war. This assumption is predicated chiefly upon the consideration that taxes will absorb an increasingly high proportion of income available after charges, while the necessity for replacing equipment that has been subjected to an abnormal degree of utilization means higher maintenance charges in future months.

With respect to the "reorganization" roads, an important consideration is the fact that during the years that interest payments have been suspended, the Federal managers have devoted a rather large portion of revenues to rehabilitation, as a result of which proportionate charges for maintenance, over the near future, while substantial, should not be as great as in the case of the other carriers.

Termination of hostilities will find the railroads deprived of much of the abnormal volume of business now being offered them. The period of readjustment to a peace-time basis may not be lengthy, but there can be little doubt but that it will be accompanied by a sharp recession in traffic volume. This, of course, will result in average declines in earning power of the roads. Consequently, regardless of the financial and traffic status of particular railroads, this consideration must be accorded full weight when selecting securities of the transportation concerns, whether for income or profit. It does not preclude further recovery in selective rail securities but it does mean they will continue to be priced at low earnings ratios.

Stockholders' Forum

(Continued from page 653)

(4) Some corporations have drafted proxies in such a way that failure of a stockholder to indicate how he desired his vote to be cast on a particular proposal vested authority in the management to vote the proxy in support of its position on the said proposal. Under the amendment, management could vote only those proxies specifically marked.

(5) The present S E C administrative rule exempts proxy solicitations which are without use of the mails or interstate commerce. In some cases this has not worked equitably. On occasion, minority stockholders have solicited in opposition to managements, without use of the mails, and have thus avoided compliance with the proxy rules, while the management was giving the required information. In other cases, managements with a close quorum situation in their hands, have solicited the additional proxy votes required without use of the mails or interstate commerce; and thus have been able to get by without proper disclosure of information to stockholders.

Such are the major changes proposed. In general, they represent a step forward in democracy and fair dealing in the relationships of managements to minority stockholders. For that reason, this publication is decidedly in favor of them. It is not any magical remedy, but a move in the right direction. At least it will give you a better chance to vote intelligently for or against what your management proposes. In short, it will give you a "better run for your money." Too many of you, as in the past, will still not make use of the opportunity—but that is entirely up to you.

Another Look At . . .

(Continued from page 651)

ernment bond holdings at the end of 1941 amounted to $61,000,000, out of total current assets of $249,000,000, while current liabilities were $86,000,000. The company's financial position, while satisfactory, would not of itself constitute the principal determining factor in the extent of distributions subsequently to be made on the common.

While net income for 1942 will doubtless be considerably under 1941 figures, the decline in the common shares to prevailing prices of about 71 appears to have discounted in considerable degree the less favorable immediate earnings outlook. On the other hand, the company's strong position in its industry and its excellent trade prospects commend the common shares for long-term acquisition on a price enhancement basis.

New Feature

— Securities That

Are Disturbing

Investors

Begins in October 17 issue

Answers to Inquiries

(*Continued from page 660*)

If past precedent can be used for prognostication this security should appreciate. Averaging of holdings should turn out to be beneficial.

Texas Gulf Sulphur

What is your appraisal of Texas Gulf Sulphur for income and price appreciation? I have 200 shares at 38, and have been holding mainly for income—but am wondering about the downward trend of earnings as shown in the 1942 reports. Despite higher costs, and assuming the worst in taxes, will this stock continue to be an attractive investment? Are losses of foreign markets fully compensated for by increased domestic sales?—R. O. R., Ogden, Utah.

Texas Gulf Sulphur produces about 50 per cent of United States output of native sulphur. Sulphur in some form finds its way into most manufacturing enterprises. It is indispensable in the rayon, silk, paint, chemical and plastic industries. Property contained a reserve at the end of 1939 of around 36,000,000 tons of sulphur. Shipments in 1941 were 2,000,000 tons. More than 3,000,000 tons are maintained constantly above ground to supply a large demand from iron and steel, heavy chemical and metallurgical industries. Foreign sales of the products have been decreased by the war but capacity operations is assured for domestic use.

Earnings have shown a slight decline, being $1.09 per share for the first six months of 1942 against $1.24 in the like period of prior year. Higher costs have cut into an industry in which the price of their product remains stationary, having changed but once in 14 years prior to 1940. Furthermore the company states in the June 30th report that taxes retroactive to January 1, 1942 will probably be enacted and the earnings to June 30th will be reduced somewhat. Since the $1.00 dividend paid in the first six months was barely covered the probability is strong that not above $2.00 per share will be paid in 1942, or 50 cents in the remaining quarter.

The financial situation of the company is so strong that the possibility exists of payment of dividends equaling those of 1941 of $2.50. Net quick assets totalled $13,682,000 as of June 30, 1942, against $15,061,000 in the like period of 1941. These figures do not include inventory, materials and supplies estimated at approximately $14,000,000. The stock is now selling at 17 times earnings, yielding 6 per cent at current levels of 33½. In view of the fact that the yield on the Dow-Jones 30 industrials used as an average is 6.50 per cent, the stock is slightly higher priced than average. Against this must be set the splendid record of this company and its high book value. For the present holdings should be maintained. Should one be optimistic on a further upward adjustment of security values marketwise he can be reasonably certain that Texas Gulf Sulphur will follow the trend.

Loew's Inc.

How would your analysts counsel an investor holding 100 shares of Loew's common acquired a long time ago at around 48? Do you concur fully in the generally optimistic view of the amusement industry, or do you anticipate troubles resulting from loss of male stars to the armed forces, possible curtailment of film manufacture, lower attendance because of gasoline rationing? Considering all these, however, how do you regard Loew's . . . from the standpoint of income and appreciation?—L. R. D., Bronxville, N. Y.

In our opinion the general prospects for the motion picture industry, and for Loew's in particular, remain favorable. When earnings for Loew's fiscal year just ended August 31, 1942, are released we expect that they will top the $6.15 earned in the previous fiscal year. Furthermore, the company, which will not be hit hard by new taxes because of its tax credit base, enters its new fiscal year with a promising outlook. Loew's is the largest producer in the industry and is also well integrated as a distributor and exhibitor. Its 119 theatres are well situated to benefit from increasing theatre attendance. 1942 will see a growth in attendance of about 18 per cent over 1941. This confirms the experience of British movie houses which have seen admissions increase 30 per cent since the outbreak of the war—this, incidentally, helped the foreign revenues of Loew's. Since the company's theatres are mostly in metropolitan centers attendance is not being affected adversely by gasoline rationing. Everywhere the neighborhood theatre has gained as driving for pleasure or to reach other sources of amusement has been cut down. The entrance into military service of some of Loew's star actors will not cause the company to lose any serious ground in relation to competitors. Well rounded casts and carefully planned pictures continue to be the rule for this company which expects to produce 52 features, about 100 shorts and approximately 100 newsreel issues for the 1942-43 season. Income from the smash hit "Mrs. Miniver" will come mostly in the fiscal year just started. Higher film rentals, moderately increased admission prices—plus the greater control over costs—should combine to maintain income at a satisfactory level. Loew's has paid dividends on the common stock continuously since 1923 and we anticipate that the regular $2 dividend and a $1 extra will be continued. The company's financial position is strong with current assets approximately 4.9 times current liabilities. The policy of retention of part of the earnings has gradually built up already strong finances. Since the raw material for producing film is also used to make gunpowder, the use of film will be restricted but we do not believe this will be drastic. Loew's has substantial film inventories on hand which will permit the carrying out of immediate producing plans. Your 100 shares can be held now and moderately increased if they do not already constitute more than 10 per cent of your account.

Changed Prospect for Oils and Rubbers

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ings to $1.58 per share of capital stock, from $2.71, in the 1942 and 1941 half-year periods. War activities include production of synthetic rubber ingredients, aviation fuels and toluol (latter also used in explosives). A fair yield is provided on the indicated 1942 payments of $1.50 per share, and the shares are attractive from a long-range viewpoint.

In the rubber division, the sharp drop in civilian sales resulting from

various restrictions on motor car use is being offset by vast military demand for a wide range of equipment for airplanes and military vehicles. These include, in addition to tires, such items as ballons, dirigibles, gas masks, track blocks and bands for tanks, tractors, etc., inflatable life rafts and pontoons, among other articles.

Lower sales, as well as larger tax deductions, resulted in a decline in net income of United States Rubber Co., from $2.07 per share of common in the first half of 1941 to $0.60 per share a year later. This company also is engaged in a wide range of war business. No distribution on the common is expected during 1942, but because of the prominent position occupied in its industry, the common shares may be acquired as a long-term price speculation.

Improvement of processes will reduce costs of the synthetic product to a price fairly comparable with that of the natural commodity. And, what is of transcendent importance, control of the raw material by domestic interests must inevitably mean greater stabilization in prices —in sharp contrast to the wide fluctuations that have, in past years, characterized the course of market prices for natural rubber—all of which factors will be of tremendous advantage to the American concerns engaged in processing of rubber in its numerous divisions.

Rubber shares have had a substantial advance from the year's lows and further recovery will encounter greater resistance. Their technical position is much like that of the leading motor shares. But basically there are three factors in their favor (1) Large war time volume and at least a medium good earnings prospect; (2) progressive accumulation of a large deferred civilian demand to be filled in future; (3) assurance of a much less speculative raw material price situation in future.

Since oils had not advanced enough to be put in a vulnerable market position, their response to the certainty of national gasoline rationing has been negative. Oils probably will continue to be valued mainly on "normal prospects," rather than temporary war-time adversity. Thus no wide movement seems likely unless and until confidence in peace prospects takes hold.

What's Ahead for U. S. Securities?

(Continued from page 631)

lower dividends. According to latest available figures, average dividend yield on 159 London market industrial stocks is 5.04 per cent. On this comparative basis stocks here are more than 20 per cent cheaper—or depressed—then are London stocks. However, London stock yields are usually lower than here. The gap probably will be narrowed somewhat both by lower dividends here and further recovery in equity prices.

Last week's advance in the market was aided by better news from the Russian war front and by some inflation-based speculative demand touched off by the House vote in behalf of a further boost in farm prices. Especially in industrials, however, the advance was grudging. Penetration of the July high was fractional and prompt recession in average prices and volume gave pause to the more cautious Dow theory interpreters. While the rail average reached a new high by a decisive margin, these shares also quickly met with profit-taking.

At this writing it seems probable that a compromise will be effected on inflation-control powers for the President. Whether it is or not, we rather doubt that "inflation psychology" will become a dynamic stock market factor this year. Until wages are firmly under control—instead of further "upward stabilization"—the farm bloc agitation will not terminate. Whatever is done by Congress or the President, we think the inflation problem will continue to simmer rather than to be conclusively settled. But, in our opinion, the prospective further rise in the cost of living will be both very gradual and moderate. Hence we doubt that inflation will figure prominently in the market's performance as far ahead as we would venture to look which is, say, to the end of the year.

We think the underlying trend of this market is up. We think 1942 will prove to have been another year of inadequate gain—and in that sense a failure—for Hitler; and that the tide of war from here on will turn more definitely in our favor. With the year's lows some months behind us, we are impressed by the staunch manner in which the market, as well as individual stocks, ignores all bad news; and by the greater response of individual stocks to favorable news.

But it should be emphasized that we do not at present see the makings of the kind of persistent, one-way bull market that we enjoyed from the early spring of 1935 to the spring of 1937. This is an irregular, selective, slow-motion market. We think it probably will continue this year to look like a "trading-range" market, but with the upper level of the recent range more likely to be pushed higher than the lower level is to pushed down. We therefore hold that this market is a selective buy on recessions; and our preference is for issues that appear individually attractive on the combined basis of war and post-war potentials. We think it is too early in this war economy to be unqualifiedly bullish on outright "peace" stocks, and to late to be so on outright "war stocks."—*Monday, September 28.*

As I See It!

(Continued from page 627)

as to his moves and his capacity to wage war.

The situation must have been very serious indeed for the British Government took prompt action in repudiating the Fascist implications of Sir Samuel Hoare's remarks. For the speeches of the Archbishop of Canterbury and Sir Anthony Eden delivered since then were in direct contradiction to Sir Samuel's suggestions. More than that, a plan of complete economic, socialization of the British Empire after the war was presented to the English people.

Despite all this, a great deal more will have to be done to smooth out the differences with our Russian Allies. There will be need for much explaining as to why the British did not push their advantage in the African campaign. Allied delay in starting an offensive action on this front to relieve Nazi pressure on Stalingrad is much more mysterious than the highly debated question of opening a Western European front.

The Egyptian campaign was thought to be fully prepared and ready for action a long time back, yet the Russians inform us that the Nazis were able to reinforce the Stalingrad front with several hundred bombers borrowed from Rommel's African corps due to Allied inaction. In this connection it is interesting that Mr. Willkie reported seeing German prisoners shivering in their lightweight tropical uniforms on the Russian front. Evidently Hitler borrowed troops as well. With such tangible proof to sustain him it will take a great deal of convincing to make Stalin believe in Allied sincerity.

It is to be hoped that we can learn a lot about what has been going on over there from Mr. Willkie who has unquestionably had the opportunity for gleaning the true facts. For while it looked at first as though he was purely on a sightseeing tour, his trip has developed into much more since his visit to Russia. Despite his inauspicious landing in Moscow, Wendell Willkie seems to have arrived at a most opportune moment and his visit may turn out to be a particularly lucky stroke for us. His open-hearted spontaneity — so representative of the American people—seems to have appealed greatly to Stalin's Oriental mind if we are to judge from the increasingly favorable reaction of the Russian press toward Mr. Willkie. The fact that the Russians are now holding the Germans before Stalingrad and that Mr. Willkie's advocacy for a second front this winter is assured in this country may have a lot to do with it, however.

As a result of our experience in the past we know we cannot be guided by the British in our attitude toward Russia. As far as we are concerned one thing stands clear and that is that the English themselves seem rather divided on Russia with some of the most powerful factions inclined toward Fascism and ready to fight for it in a way that is not to our advantage. This calls for the greatest care and wisdom on our part since we know that many of the British mistakes and defeats were due mainly to the fear of Communism. It was responsible for Munich, for the fiasco in Spain, for the Hitler-Stalin alliance, for the fall of France and even for upheaval in India. It was responsible, too, for the rise of Japan and her conquests in the Pacific.

Stark facts call for our taking a most realistic attitude toward Russia. For it can readily be seen that if Germany collapses the Russians will finally overrun Europe and the fear of Communism will have brought Communism to the entire continent. The same would be true in China where the Communists and the Fascists joined hands only in the greater crisis—that of preventing conquests by Japan.

It is a serious situation that we are facing and a problem which has been thrown right in our laps to solve. The evidence in the Russian experiment points to a recognition of the failure of Communism and the establishing of a socialistic economy based on non-profit and to that extent similar to that advocated by the Archbishop of Canterbury and Sir Anthony Eden, after the war. Personally, I believe both go too far.

The Russian people are not fighting for Communism. They are fighting for their homeland, believing that they have made the sacrifices of blood and substance in order that those who come after them will live as free men and women under an economy in which they will neither be slaves to autocracy or bureaucracy.

It is our opportunity to assert our leadership in order that when our people come back from the wars they will not feel they have been cheated again—for that is how they felt after the last war, and the result was an age of brutality and ruthless acquisition of wealth and power.

We should state our aims so as to inspire all men to join us in the fight for a better and finer world. And we should take the leadership out of the dead hands of those who have shown their inability to act in accordance with the realism of this age.

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